

## **Second Health Sector Development Project – Component -I - 2015**

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The audit of Financial Report of the Second Health Sector Development Project Component-I 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 and the International Development Association.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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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 at national level 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 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, SDR 129.8 million (US\$ 200 million) equivalent to Rs. 25,270 million and out of that, SDR 123.31 (US\$ 190 million) equivalent to Rs. 24,006 million had been allocated for the activities to be carried out under the Component -I of the Project. The Project activities was commenced 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-I of the Project which presented separately.

### **1.3 Responsibility of the Management for the Financial Report**

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Management is responsible for the preparation and fair presentation of these Financial Report 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 Report that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

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My responsibility is to express an opinion on this Financial 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 Financial Report is free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial 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 Financial 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 Financial 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 Financial 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 Ministry of Health, Nutrition and Indigenous Medicine 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 Financial Report had been prepared in conformity with Financial Regulation 150 and the State Account Circular No. 245/ 2015 of 10 December 2015 of the General Treasury.
- (g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (h) 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 Financial Report based on the Appropriation Accounts of the Ministry of Health, Nutrition and Indigenous Medicine for the year 2015 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. 245/2015 of 10 December 2015. The above Appropriation Accounts were agreed with the Treasury computer printouts, the Annual Budget Estimates, books, registers and records maintained by the Ministry of Health, Nutrition and Indigenous Medicine,

- (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**

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### **2.2.1 Non- Compliance with Laws, Rules and Regulations**

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The core staff positions of the Project including the Project Director, Accountant and Project Officers attached to the Line Ministry had been deployed by the Project on acting basis, contrary to the directions made through the Letter No. DMS/C/1/16/ Proj. of 21 May 2014 of the Department of Management Services to recruit such officers on full time basis.

### **2.2.2 Financial Covenants not complied with**

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According to the Project Appraisal Document, an environmental assessment should be carried out and a report to be prepared by assessing the performance of the Environmental Management Framework in each year commencing from 28 February 2015 up to end of the period of the Project. However, the Project had not complied with this requirement and the assessment report for the year under review had not been furnished accordingly.

## **3. Financial and Physical Performance**

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### **3.1 Utilization of Funds**

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According to the records maintained by the Project, the financing of funds, budgetary allocation and utilization of the funds for 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-I	190	24,006	2,670	14.40	1,848	28.18	3,618
	<u>190</u>	<u>24,006</u>	<u>2,670</u>	<u>14.40</u>	<u>1,848</u>	<u>28.18</u>	<u>3,618</u>

The following observations are made.

- (a) According to the Project Appraisal Document, US\$ 43.75 million equivalent to Rs.5,617 million was expected to be disbursed for the year under review by the International Development Association. However, a sum of Rs.2,670 million had only been allocated in Budget Estimate for the year under review. Out of the above allocation, a sum of Rs.1,848 million representing 69 per cent had only been utilized during the year under review.
- (b) According to the above information, out of the total allocation of US\$ 190 million equivalent to Rs. 24,006 million made under the Project, only a sum of US\$ 28.18 million equivalent Rs. 3,618 million represented 14.8 per cent of the total allocation had been utilized 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 based on 03 Disbursement Link Indicators and 11 Non-Disbursement Link Indicators. At a test examination, it was revealed that desired results of 03 Disbursement Link Indicators and 08 Non-Disbursement Link Indicators, out of 11 Non Disbursement Link Indicators had been achieved. Details on slow progress on achievement of targets stipulated under other 03 Non-Disbursement Link Indicators are given below.

- (a) According to the Non-Disbursement Link Indicator -7 for improvement of training capabilities of health sector, 07 training institutes out of 34 training institutes throughout the island was expected to be improved during the year under review to meet national standards. However, 05 training institutes could be able to reach up to the standards of improvement.

- (b) Although 13,577 new Tuberculosis cases expected to be detected during the year under review under the Non- Disbursement Link Indicator – 9, only 9,246 cases had been detected. According to the audit point of view, the identification of new Tuberculosis patients is mainly depend on the awareness of the patients on identification of diseases and continuous treatments thereon. Therefore, more attention is to be paid on awareness programmes and improvement of facilities for early detection of the diseases and treatments thereon.
- (c) According to the Non-Disbursement Link Indicator – 11, it was planned to be awarded more than 50 per cent of contracts during first 09 months of 2015, out of the total contracts awarded to procure 354 items. However, contracts for 167 items of procurements had only been awarded during that period. It indicated that the rest of contracts to procure 187 items had been awarded during the last quarter of the year under review allowing less attention on issues such as economy, efficiency, effectiveness and transparency etc on procurements made during that period.

### **3.3 Contract Administration**

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According to the information received, the unsolicited proposals made on 09 September 2010 by 02 foreign suppliers to supply cancer treatment equipments of 14 Linear Accelerators, 08 CT Simulators and 08 Brachytherapy Machines and commissioning of such equipments including construction of concrete bunkers at a cost of US\$ 53.38 million equivalent to Rs.6,853.46 million approximately had been rejected due to unacceptable conditions included in the financial plan of the proposal. However, the Cabinet of Ministers at its meeting held on 30 April 2015 had granted approval to procure the equipment and used the allocation made under the Annual Budget Estimate for that purpose. The Line Ministry had awarded to contract to the foreign supplier at same price which included the cost of commissioning of equipments, without calling fresh bids internationally. Therefore, a sum of US\$ 6.23 million equivalent to Rs.759.75 million had been paid up to 31 December 2015 to procure 03 Linear Accelerators,.