

Second Health Sector Development Project - 2015

The audit of Consolidated Financial Management Report of the Second Health Sector Development Project 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 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 estimated total cost of the Project amounted to SDR 129.8 million equivalent 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 judgment, 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 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 identifications of purchase made out of the Loan etc.
- (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 equipment supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the Consolidated Financial Management Report had been prepared in conformity of Financial Regulation 150 and the circular instructions issued by the Chief Secretaries of the respective Provincial Councils.
- (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 Appropriation Accounts of the Provincial Councils for the year 2015 presented to audit were prepared and presented in conformity with the provisions in Financial Regulation 150 of the Democratic Socialist Republic of Sri Lanka and the circular instructions issued by the Chief Secretaries of the respective Provincial Councils. The above Appropriation Accounts were agreed with the records of the General Treasury, Annual Budget Estimates and the books, registers and records maintained by the Health Ministries of the Provincial Councils. The costs incurred out of the proceeds of Loan had been duly recorded in the Appropriation Accounts of the Health Ministries of the Provincial Councils for the year 2015,

- (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 2015 are shown below.

Source	Amount agreed for financing in 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		up to 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
IDA	200	26,000	3,215.00	23.54	3,061.30	36.00	4,680.20
	<u>200</u>	<u>26,000</u>	<u>3,215.00</u>	<u>23.54</u>	<u>3,061.30</u>	<u>36.00</u>	<u>4,680.20</u>

The following observation is made.

According to the Consolidated Financial Management Report of the Project, out of the net provisions of Rs. 4,855.20 million and Rs. 47,966.14 million made by the Government of Sri Lanka through Budget Estimate to meet capital and recurrent expenditure respectively for the provincial health sector, the provisions of Rs. 2,068.37 million Rs. 1,165.26 million made for capital and recurrent expenditure respectively had remained underutilized in all nine provinces. It was further observed that savings of 12.5 per cent and 8.4 per cent had been reported, out of net provisions made for the Provincial Councils of Sabaragamuwa and North Western Provinces respectively for development of health sector of the respective Provinces. Further, net savings of 7.7 per cent, out of the total net provisions made for the health sector of the Central Province had been reported. The net savings below than 6 per cent had been reported by other 06 Provinces on total net provisions made for the year under review for the health sector of the respective Provinces.

3.2 Physical Progress

The following observations are made.

- (a) According to the progress reports of the Project, it was expected to receive the health information through e-IMMR system from 262 provincially managed Divisional Hospitals, out of 525 Hospitals as at 31 December 2015. Therefore, 265 Divisional Hospitals had presented immobility information through e-IMMR system during the year under review and remained satisfactory at the provincial level. However, slow progress for receiving information was observed from Divisional Hospitals in remote areas of the following districts.

District	No. of Divisional Hospitals in the District	No. of Divisional Hospitals sent information through e-IMMR
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Nuwara Eliya	26	11
Batticaloa	20	07
Kalmunei	14	06
Kurunegala	46	11
Rathnapura	38	08
Galle	21	09
Hambanthota	20	09

The Provincial Directors of Health Services of the above mentioned districts had explained that the targets for sending health information through e-IMMR system could not be achieved due to shortage of trained staff for the respective purpose.

- (b) According to the Disbursement Link Indicator-05, the caring facilities for pregnant women and children under the age of 5 years was expected to be enhanced through providing equipment and other facilities to 2,440 Maternal and Child Health (MCH) Clinics, out of 3,841 of such Clinics as at 31 December 2015. However, necessary equipments and other facilities for 21 Maternal and Child Health Clinics, out of 102 such clinics in Polonnaruwa district had only been provided as at 31 December 2015. Further, the slow progress ranging from 50 per cent to 56 per cent had been reported on providing such facilities for the Maternal and Child Health Clinics of the Regional Directorate of Health Service areas at Batticaloa, Kalmunei and Galle districts.
- (c) According to the Disbursement Link Indicator 06, at least 02 Healthy Lifestyle Centres per each area under the purview of Medical Officer of Health are expected to be established during the period of the Project. Therefore, 165 of Healthy Lifestyle Centres were expected to be established as at 31 December 2015. Eventhough the overall targets for the year under review had been achieved and 212 Healthy Lifestyle Centres had been established as at 31 December 2015, satisfactory progress in this regard had not been shown in the several districts. Therefore, only 07 and 03 Healthy Lifestyle Centres had

been established as at 31 December 2015, out of 28 and 08 Healthy Lifestyle Centres expected to be established in Kurunegala and Puttalam districts respectively. Further, only 04 Centres had been established, out of 16 Healthy Lifestyle Centres expected to be established in Badulla district.

- (d) The Project had allocated funds to control non-communicable diseases and improve the quality of Suwadiwi Clinics for carrying out medical tests on diabetics, high blood pressures and cancer for the persons over the age of 40 years. It was revealed in audit tests that adequate details had not been maintained on patients attended to the Suwadiwi Clinics held by the offices of District Medical Officers of the Kalutara district. It was further observed that the Clinics on non-communicable diseases had not been conducted in the Sabaragamuwa Province and the progress of the activities of Suwadiwi Centres reported to the Project had comprised with the information collected from maternity clinics held at the offices of District Medical Officers of the Sabaragamuwa Province.
- (e) It was observed that the Comprehensive Emergency Maternal and Obstetric Care facilities under the consultation of the Gynecologists had not been provided at the Provincial Hospitals in Matara, Nuwaraeliya, Rathnapura, Anuradhapura, Jaffna, Trincomalee, Batticaloa and Kalmunai districts as at 31 December 2015. The services on Comprehensive Emergency Maternal and Obstetric Care facilities provided in 2014 at the Provincial Hospitals in Walasmulla, Tissamaharama, Dikoya, Rikillagaskada and Diyathalawa could not be continued in 2015, due to shortage of Gynecologists.
- (f) According to the Non-Disbursement Link Indicator -06, the facilities should be provided to 266 Primary Health Care Institutes to maintain an adequate buffer stock of drugs for the non-communicable diseases. According to the progress report, the facilities to maintain buffer stock of such drugs had been provided to 529 Primary Health Care Institutes as at 31 December 2015. However, no buffer stock of drugs had been maintained at 55 Primary Health Care Institutes in Anuradhapura district whilst only 04 Institutes, out of 24 Primary Health Care Institutes in Matara District had maintained buffer stock of such drugs as at 31 December 2015.
- (g) The detailed audit carried out on management of drugs stores at the Provincial Hospitals had revealed that the drugs were not arranged in the store, as enable to easy identification of the date of expiration of the respective stocks of drugs. Therefore, it was observed that the risks on issue of expired drugs and other drugs with inferior quality at the Provincial Hospitals at Alawwa, Dambadeniya, Wariyapola, Galgamuwa and Kalpitiya in the North Western Province, Provincial Hospital at Udugoda and Medical Supplies Unit at Rathnapura in the Sabaragamuwa Province and Provincial Hospital at Nochchiyagama, Medawachchiya, Rajangana, Negampaha, Kekirawa, Primary Medical Treatment Unit at Kebithigollawa and the office of the Medical Health Officer at Thalawa and Galnewa in Anuradhapura district. Further, it was observed that the shortages and surpluses of drugs in 05 regional hospitals in Anuradhapura and Ratnapura districts.

3.3 Contract Administration

The following observations are made.

- (a) It was observed that the allocations made for the activities identified under the Development Plan - 2015 had not been utilized in several instances as described below.
 - (i) It was observed that 03 programmes expected to be conducted under the Improvement of Health System and Maternal Child Health and Nutrition at an estimated cost of Rs. 15.66 million had not been implemented by the Provincial Ministry of Health of the Western Province. However, other 09 programmes which were not included in the Development Plan - 2015 had been implemented at a cost of Rs. 10.44 million.
 - (ii) According to the records maintained by the Regional Ministry of Health of Northern Province, the several items of furniture and equipment procured out of the funds allocated by the Project had been handed over to the District Hospitals at Valanei and Kopai. However, the physical site visit made by the auditors in March 2016 had revealed that the respective furniture and equipment had not been received to the Hospitals.

3.4 Idle or Under-utilized assets

It was observed during the physical site visits made by the auditors that 08 items of equipment and 29 items of furniture handed over to the District Hospitals in Valanei and Mannar had remained unutilized for over five months at the Regional Directorate of Health Service without distributing it for intended purposes. Further, the Intensive Care Unit of the District Hospital at Kilinochchi renovated at a cost of Rs. 1.03 million had remained unutilized from July 2015 up to 30 April 2016.

3.5 Matters in Contentious Nature

It was observed at the site visits made by the auditors that the repair works of Health Fitness Centre at Base Hospital in Mannar had not been completed as per work schedule. However, a sum of Rs. 1.43 million agreed for the repair works had been released to the contractor on 08 December 2015.