

## **Second Health Sector Development Project - 2016**

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The audit of Consolidated Financial Management Report of the Second Health Sector Development Project for the year ended 31 December 2016 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 total estimated cost of the Project amounted to SDR 129.8 million equivalents to US\$ 200 million. The Project commenced its activities 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 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 identifications 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 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 expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the Consolidated Financial Management Report had been prepared in conformity with Financial Regulation 150 and the Circular No. 252/2016 of the Department of State Accounts of 09 December 2016.
- (h) Whether the 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 lay 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 nine Provincial Councils for the year 2016 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.252/2016 of 09 December 2016. The above Appropriation Accounts were agreed with the records maintained by the General Treasury, Annual Budget Estimates and the books, registers and records maintained by the nine Provincial Councils. The costs incurred out of the proceeds of Loan had been duly recorded in the Appropriation Accounts of the nine Provincial Councils for the year 2016.
- (b) the funds provided had been utilized for the purpose 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. Comments on Financial Statements**

#### **3.1 Presentation of the Financial Statements**

According to the Circular No. MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements for the year ended 31 December 2016 are required to be submitted to the Auditor General on or before 31 March 2017. However, the financial statements of the Project had been submitted only on 23 May 2017.

### **4. Financial and Physical Performance**

#### **4.1 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 2016 are shown below.

Source	Amount agreed for financing as per 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 2016
	US\$ million	Rs. million	Rs. million	Rs. million	Rs. million
IDA	200	26,000	3,306	3,285.5	7,955
	<u>200</u>	<u>26,000</u>	<u>3,306</u>	<u>3,285.5</u>	<u>7,955</u>

According to the Consolidated Financial Management Report of the Project, a sum of Rs. 365 million for each Provincial Council had been made through Budget Estimate-2016 to meet the capital and recurrent expenditure respectively for the provincial health sector. According to the detailed audit, it was observed that the savings of Rs. 96.38 million representing 36 per cent of allocation of Rs. 268.61 million made to the Southern Provincial Council whilst a sum of Rs.72.10 million had been remained unspent and retained in a General Deposit Account of Provincial Treasury of the Central Province. In addition to that, a sum of Rs. 35.37 million had remained unspent, out of the allocation of Rs.156.98 million made to the Director of District Health Services Offices in Kandy, Matale and Nuwaraeliya Districts to procure medical equipment.

#### **4.2 Physical Progress**

According to the Project Documents, the physical targets expected to be achieved by the Project under 05 Disbursement Link Indicators and 11 Non-Disbursement Link Indicators. The detailed audits carried out at the provincial level, it was revealed that the intended benefits had not been reached up to the level expected by the Project to improve health and

care facilities to the under-privileged sectors of the society in the remote areas of the country. The matters revealed are described as follows.

- (a) According to the Disbursement Link Indicator – 02, the Emergency Treatment Units were scheduled to be established in 350 Divisional Hospitals with facilities specified in the standard guidelines. The test checks carried out thereon had revealed that the necessary equipment for the Emergency Treatment Unit such as Defibrillators, ECG Machines, Equipment for Intubation, Medical Examination Beds etc., were not received to the District Hospitals at Dambana and Kendagolla in the Uva Province. Further, immobility information to be sent to the Line Ministry through e-IMMR system, as required by the Disbursement Link Indicator – 04 had not been provided by the District Hospitals at Hambegamuwa and Dambana in the Uva Province due to lack of access to internet facilities.
- (b) The Project had assisted 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. Although it was scheduled to be conducted 52 Suwadiwi Clinics per year, the Base Hospitals at Medirigiriya and Thambutthegama and Regional Hospitals at Gal Amuna and Welikanda in North Central Province had conducted below than 21 clinics during the year under review. Further, it was observed that the basic facilities such as water supply and sanitation, adequate spaces for waiting, registration and examination areas required for the Healthy Life Style Centre had not been available at the District Hospital of Medagama in the Uva Province.
- (c) According to the Disbursement Link Indicator – 08, the activities under the Quality Management Unit such as conducting Performance Review Meetings, Customer Satisfaction Survey and Capacity Building Programs for the staff had not been conducted by the District Hospital at Buttala, Offices of Medical Officer of Health of Siyabalanduwa and Thanamalwila in the Uva Province.

#### **4.3 Contract Administration**

The weaknesses on contract administration revealed at the detailed audits carried out on test basis on contracts awarded by the provincial health authorities for civil construction and other procurement purposes are described as follows.

- (a) Although a sum of Rs.24.60 million was allocated for 24 constructions and renovation works of buildings at Regional Hospitals in Anuradhapura District, only Rs.4.55 million had been utilized at the end of the year under review. It was observed that the constructions and renovation works of buildings at 05 Regional Hospitals in the District had remained partially completed at the end of the year under review, due to delays in awarding of contracts. Further, constructions and renovation works of buildings at other 11 Regional Hospitals were not commenced even as at 31 December 2016. Further, out of 33 constructions and renovation works of buildings at the Regional Hospitals in Polonnaruwa District, the renovation works of 13 Regional Hospitals were partially completed and other 05 construction works were remained at the initial stages at the end of the year under review.

- (b) According to the progress reports presented by Provincial Ministry of Health of the Southern Provincial Council, the procurements activities implemented out of the proceeds of the Loan had been fully completed as at 31 December 2016. However, the physical site visits made by the auditors had revealed that the equipment valued at Rs.10.11 million requested by the District Hospitals of the Southern Province during the year under review had not been received to the Provincial Ministry of Health even as at 30 June 2017.

#### **4.4 Idle or Underutilized Assets**

The following observations are made.

- (a) As a common feature, the assets procured out of the proceeds of the Loan had not been utilized by the provincial health authorities for intended purposes. It was revealed that many of such equipment were requested by the hospital authorities and procured without considering actual requirements of the respective hospitals. Instances observed at the site visits of the auditors are as follows.
- (i) The Surgical Medical Equipment procured during the year under review at a cost of Rs. 21.92 million had remained in the stores without being utilized even as at 28 February 2017 at the Regional Hospitals at Jambugahapitiya, Narampanawa, Uduwela, Ankumbura, Thalathuoya, Delthota, Galaha, Panwilathenna, Hasalaka, Ambagahapelessa, Morayaya, Kolongoda and Udagama Atabage and the Offices of Medical Officer of Health Poojapitiya, Menikhinna, Thalathuoya and Hasalaka in the Central Province. Further, the Surgical Medical Equipment procured for Regional Hospitals at Atabage, Muruthalawa, Hasalaka and Morayaya in the Central Province at a cost of Rs. 5.17 million were remained unutilized over several years and out of that equipment valued at Rs.2.18 million had been transferred to other hospitals after expiration of warranty periods.
- (ii) The physical inspection made at the Base Hospitals at Kahawatta and Kalawana in Sabaragamuwa Province had revealed that 04 CR System Machines procured at a cost of Rs. 14.33 million had remained idle for over 06 months.
- (iii) It was revealed that 02 CT Scanner Machines procured at a cost of Rs. 138.45 million and transferred to the Base Hospitals at Karawanella and Ambilipitiya in the Sabaragamuwa Province were remained idle at the premises of the respective hospitals due to lack of required infrastructure facilities.
- (iv) Although Auto Clave equipment provided to the Base Hospital at Kolongoda in the Central Province had remained unused for over 04 years due to lack of electricity supply. Further, the warranty period of 02 years of such equipment had also been expired.

- (v) A water treatment plant for a Dialysis Unit valued at Rs. 2.68 million at Base Hospital in Dambadeniya in the North Western Province had remained idle since 15 December 2015, as a Kidney Treatment Unit had not been established.
  - (vi) It was observed that medical the equipment at a cost of Rs. 2.03 million had been remained unutilized even as at 30 June 2017 in the District Hospitals of Thanamalwila, Medagama, Inginiyagala, Dambagalla, Siyambalanduwa, Bibila and Medical Health Office of Medagama in the Uva Province.
- (b) Although the Emergency Treatment Unit was not established, Surgical Medical Equipment procured at a cost of Rs.2.23 million had been sent to the Regional Hospital at Bokkawala in the Central Province and the respective equipment were remained unutilized. Further, the laboratory equipment procured at a cost of Rs.406, 300 had been provided to the District Hospital at Manikhinna in the Central Province, eventhough such a Laboratory was not established at the hospital. It was further revealed that 20 Defibrillator Monitors procured at a cost of Rs. 39.80 million and distributed to 07 Regional Hospitals in the Central Province had also remained idle as buildings for the Emergency Treatment Units were not constructed and lack of experienced staff at the respective hospitals.
- (c) The defects in readings of 03 Multi Para Monitors procured at a cost of Rs. 1.23 million in February 2015 had been informed to the Director of Provincial Health Services by the Director of District Hospital at Nawalapitiya by his Letter dated 31 May 2016 and no action had been taken to rectify such defects even as at 30 June 2017. Further, the inaccuracies of the readings of 254 Blood Pressure Apparatus procured at a cost of Rs. 1.52 million to the hospitals in the Central Province had also been revealed. According to the instructions of the Director of Provincial Health Services, such equipment were kept out of usage since August 2016.
- (d) The Provincial Health Department of the Sabaragamuwa Provincial Council had entered into an agreement on 15 June 2016 with the Development Construction and Machinery Authority of the Sabaragamuwa Provincial Council to construct a building for the Medical Centre at Imbulgasdeniya in the Sabaragamuwa Province at a cost of Rs. 12.54 million. However, the construction works had not been commenced even as at 15 June 2017, eventhough the mobilization advance of Rs. 2.50 million had been released to Development Construction and Machinery Authority on 11 July 2016.
- (e) It was observed that the infrastructure development works such as construction of buildings for Quality Management Unit, Waste Management Unit and Emergency Care Unit and other works completed at the end of the year under review at a cost of Rs. 4.52 million at the Base Hospitals at Madewachchiya, Regional Hospitals at Hingurakgoda, Gal Amuna, Rambewa, Rajanganaya and Attanakadawala had not been opened for the use of general public up to 30 June 2017.