

Establishment of the Epilepsy Hospital and Health Centres Project - 2017.

The audit of financial statements of the Establishment of the Epilepsy Hospital and Health Centres Project for the year ended 31 December 2017 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 Loan Agreements No. 7/477 dated 26 March 2008 and No.11/640 dated 30 October 2015 entered into between the Democratic Socialist Republic of Sri Lanka and the Saudi Fund for Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, the Ministry of Healthcare and Nutrition, presently Ministry of Health, Nutrition and Indigenous Medicine is the Executing and Implementing Agency of the Project. The objectives of the Project are to construct a fully equipped Epilepsy Hospital at the premise of National Hospital in Colombo and establish Provincial Health Centers in each Provinces. As per the Loan Agreements, Saudi Riyal 75 million equivalent to Rs.2,273 million had been agreed to be provided by the Saudi Fund for Development initially. Further, an additional Loan of Saudi Riyal 45 million equivalent to Rs.1,690.65 million had been made through a supplementary Loan Agreement on 30 October 2015. The Project commenced its activities on 26 March 2008 and scheduled to be completed by 31 December 2009. Subsequently, the period of the Project had been extended in 05 times up to 31 December 2017.

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 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 the 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 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 and the identifications of purchases made out of the Loans, etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans 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 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 laid down in the Loan Agreements had been complied with.

2. Financial Statements

2.1 Opinion

So far 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 managements to rectify the issues highlighted in my previous tear audit report, and
- (d) the financial covenants laid down in the Loan Agreements had been complied with.

2.2 Accounting Deficiency

The cost of construction of the building for Epilepsy Hospital amounting to Rs.2,872.28 million had been shown under work-in-progress eventhough construction works of the building was completed during the year under review and opened for the use of general public.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provisions for the year under review and utilization of the funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing according to the Loan Agreements		Allocation made in Budget Estimate for the year under review	Funds utilized			
	Saudi Riyal million	Rs. million		during the year under review		as at 31 December 2017	
	Saudi Riyal million	Rs. million	Rs. million	Saudi Riyal million	Rs. million	Saudi Riyal million	Rs. million
SFD	120.00	3,963.65	150.00	12.38	504.61	99.17	3,959.65
GOSL	161.25	6,295.72	20.00	-	43.25	-	723.08
Total	<u>281.25</u>	<u>10,259.37</u>	<u>170.00</u>	<u>12.38</u>	<u>547.86</u>	<u>99.17</u>	<u>4,682.73</u>

The following observations are made.

- (a) As a common feature, the Project had not taken action to utilize the allocations made by the Annual Budget Estimates. Eventhough the allocations aggregating Rs.7,223.82 million had been made through the Budget Estimates of the period of previous 10 years, only a sum of Rs. 4,682.73 million had been utilized up to 31 December 2017, due to slow progress on construction works and procurement of medical equipment.
- (b) The Project Steering Committee had not taken action to reap the benefits of the Project through completing the construction works timely and utilize the proceeds of Loan for intended purposes effectively. The grace period of 05 years for the repayment of the first Loan was ended as at 26 March 2013. Therefore, the Loan installments aggregating Saudi Riyal 16.88 million equivalent to Rs. 626.91 million and interest thereon aggregating Saudi Riyal 3.93 million equivalent to Rs.143.80 million had been paid up to 31 December 2017. Further, the Project had made a request for an additional loan facility of Saudi Riyal 45 million equivalent to Rs.1,690.65 million to complete the activities of the Project. The following further observations are made in this connection.
 - (i) Eventhough an allocation of Rs.969.80 million only had been made in the Loan Agreement for the construction of the building, a contract thereon had been awarded at a cost of Rs.1,884.82 million.
 - (ii) Out of the allocation amounting to Rs.1,075.90 million made in the Loan Agreement to procure medical equipment for the Epilepsy Hospital and Provincial Health Centres, a sum of Rs.337.26 million had been utilized to procure medical equipment for Neuro Trauma Unit of the National Hospital which was not related to the objectives of the Project. The rest of the allocations made to procure equipment had been utilized for payments on building construction works. However, the approval from the Lending Agency for the use of allocations for other purposes had not been obtained thereon. As a result, additional requirement of funds amounting to Rs.1,480 million had been requested by the Project to procure medical instruments, furniture, generator, consultancy and to meet extra costs.
 - (iii) As a result of above mentioned arrangement consultancy fees for the construction of hospital building and procurement of medical equipment amounting to Rs.164.05 million agreed at the initial stage had been increased up to Rs.429.29 million and the allocations made for consultancy fees for construction of 09 health centers had been utilized to meet the additional costs.

- (c) According to the information received, the Reimbursable Foreign Aids payable to the Treasury as at 31 December 2017 amounted to Rs.473.03 million and out of that an amount of Rs.240.10 million had remained outstanding even as at 01 July 2018.

3.2 Physical Performance

The following observations are made.

- (a) According to the information received, 08 storied buildings for the Epilepsy Hospital which scheduled to be completed by 03 April 2014 had completed with the delays of 950 days and handed over to the Line Ministry on 09 November 2016. The Hospital was opened for the use of general public on 24 October 2017.
- (b) According to the initial Loan Agreement, the Project had planned to establish 09 Provincial Health Centers at a cost of Saudi Riyal 161.25 million equivalent to Rs.6,295.72 million throughout the island. However, activities relating to construction of 09 health centers equipped with out-patient clinics, laboratories and training centers had not been commenced as at 31 December 2017 and additional Loan amounting to Saudi Riyal 45 million equivalent to Rs.1,690.65 million which was agreed to spent to procure medical equipment for 09 Provincial Health Centers had been entirely used to establish of Epilepsy Hospital.

3.3 Matters in Contentious Nature

The Project had procured the Diagnostic Medical Imaging Equipment such as Magnetic Resonance Imaging Scanner (MRI), Single Proton Emission Computed Tomography Scanner (SPECT), Positron Emission Tomography Scanner (PET) and Digital Subtraction Angiography System (DSA) at a cost of Rs.732.77 million through international competitive bidding. The following observations are made.

- (a) The clearance certificate issued by the U.S. Food and Drug Administration (U.S. FDA) valid at the time of bidding stage had not been furnished by the selected bidder, as per critical requirement specified under Technical Specifications of Magnetic Resonance Imaging Scanner and Positron Emission Tomography Scanner.
- (b) The year of the model for the MRI, SPECT and PET scanners had not been indicated under bidding documents furnished by the selected supplier eventhough the model of the equipment required to be first introduced after 2010. However, the Technical Evaluation Committee appointed to assist to the Cabinet Appointed Procurement Committee had recommended such bids without being considered such critical requirements.
- (c) It was observed that a technical specification for the SPECT scanner had not been determined in the bid calling stages and a newest model of the scanner machine had been quoted by the selected supplier which was not introduced to the market at the time

of bid was closed. The Technical Evaluation Committee had evaluated such machine based on the details published in the supplier's website.

- (d) The Project had purchased 02 Uninterrupted Power Systems for PET and DSA machines from the same suppliers at an additional payment amounting to Rs.4.98 million, as the details of the mandatory spare parts including the units of Uninterrupted Power System had not been specified in the original bid documents.
- (e) The onsite and foreign training programme to relevant officers of the hospitals agreed to provide by the suppliers of the medical imaging equipment had not been completed until 01 August 2018.
- (f) It was observed that all such medical equipment other than MRI machine had remained idle over 06 months as at 31 December 2017 due to unavailability of mandatory spare parts and delays in import of essential chemical of "Radioactive Flideoxyglucose" for the use of PET scanner.
- (g) According to the terms and conditions agreed with the suppliers, almost 24 months had spent as at 31 August 2018 out of the warranty period of 36 months from the date of installation of the Diagnostic Medical Imaging Equipment without commencement of its scanning activities.
- (h) It was observed Liquid Helium required to keep the Magnet in "Cold Head" area of MRI Scanner had dropped at its critical level due to machine had remained idle without continuous operations since 03 February 2017. The hospital had spent a sum of Rs.895,000 to refill Liquid Helium without consider the supplier's free maintenance period, contrary to condition No.15 of technical specifications and sub clause 25.3 of the General Conditions of the contract.

3.4 Matters related to Financial Controls

The following observations are made.

- (a) The transactions on the activities of the Project had not been subjected to Internal Audit of the Line Ministry as required by the Financial Regulation No. 133 (1) and Circular No.05 dated 26 July 2010 of the Department of Management Audit
- (b) Physical verification had not been carried out for the year ended 31 December 2017 in respect of fixed assets of the Project valued at Rs.1,635 million as required by the Financial Regulation No. 756.
- (c) The Project had not been maintained a Register of Fixed Assets for computers, accessories and software valued at Rs.824,096 required by the Treasury Circular No. IAI/2002/02 dated 28 November 2002. As a result, the process of handing over of the assets procured by the Project would not be implemented in proper manner.

3.5 Human Resource Management

The period of service of the staff of the Project including the Project Director who covers duties on acting basis had been extended continuously without considering slow performance of the Project and costs overrun, contrary to the Paragraphs 02 of the Management Services Circular No. 01/2016 of 24 March 2016.