

Improvement of Basic Social Services Targeting Emerging Regions Project - 2017

The audit of financial statements of the Improvement of Basic Social Services Targeting Emerging Regions 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 Article III of Section 4 (6) of the Loan Agreement No. SLP-105 dated 28 March 2012 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency (JICA).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Department of National Planning of the Ministry of Finance, presently Department of Project Management and Monitoring of the Ministry of Project Management, Youth Affairs and Southern Development is the Executing Agency and the Ministry of Health, Nutrition and Indigenous Medicine and the Eastern, North Western, Central and Sabaragamuwa Provincial Councils are the Implementing Agencies of the Project. The objectives of the Project are to improve the health, medical system and strengthen the production capacity of essential drugs through improving facilities and equipment in secondary level hospitals and the State Pharmaceutical Manufacturing Corporation, thereby contributing to the enhancement of non – communicable diseases management. As per the Loan Agreement, the estimated total cost of the Project amounted to Japan Yen 4,760 million equivalent to Rs.6,332 million and out of that Japan Yen 3,935 million equivalent to Rs.5,155 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 23 July 2012 and scheduled to be completed by 23 July 2019.

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 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 are 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 which 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 are 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 identification 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 Loan 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 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 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 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 management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

3. Financial and Physical Performance

3.1 Utilization of Funds

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

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	JPY million	Rs. million	Rs. million	during the year under review		as at 31 December 2017	
				JPY million	Rs. million	JPY million	Rs. million
JICA	3,935	5,155	1,154	707	992	3,161	4,006
GOSL	825	1,177	280	186	252	789	1,075
Total	<u>4,760</u>	<u>6,332</u>	<u>1,434</u>	<u>893</u>	<u>1,244</u>	<u>3,950</u>	<u>5,081</u>

The following observations are made.

- (a) According to the disbursement schedule, total funds amounting to Japan Yen 3,935 million equivalent to Rs.5,155 million was expected to be utilized up to 23 July 2019 and out of that Japan Yen 3,161 million equivalent to Rs.4,006 million had only been utilized by the Project as at 31 December 2017.
- (b) The allocations amounting to Rs.1,092 million and Rs.16 million had been made in Annual Budget Estimate - 2017 for the development of production capacity of the State Pharmaceuticals Manufacturing Corporation and development of Base Hospital at Theldeniya respectively and out of that sums of Rs.934.40 million and Rs.11.42 million respectively had only been utilized as at 31 December 2017.

3.2 Physical Progress

According to the Project Documents, the activities of the Project comprised with the improvement of the capacities of 04 Base Hospitals in the Sabaragamuwa, North Western, Central and Eastern Provinces and strengthen the production capacity of essential drugs through improving facilities and equipment of the State Pharmaceutical Manufacturing Corporation. The following observations are made thereon.

- (a) The civil construction works of the Base Hospitals at Warakapola, Galgamuwa, Teldeniya and Kalawanchikudy had been completed with extension of time ranging from 01 month to 14 months and opened for public use by the end of July 2017. The Director General of the Department of Project Management and Monitoring had stated that certain delays occurred, due to unavoidable reasons and time extensions were approved by the provincial authorities.
- (b) According to the Project Implementation Schedule, the works related to development of the storage building and improvements of production capacity by modernization of machineries of the State Pharmaceutical Manufacturing Corporation were scheduled to be completed as at 31 May 2017. However, the contract for the construction of storage building had been awarded only on 11 January 2017, due to delays in the procurement process and 75 per cent of works had been completed at the end of the year under review.

3.3 Contract Administration

The location selected in the initial stage of the Project for construction of the 03 storied storage building for the State Pharmaceutical Manufacturing Corporation had been altered even after the signing of the construction contract, due to disagreements between the State Pharmaceutical Corporation and State Pharmaceutical Manufacturing Corporation. Further, an additional cost of Japan Yen 4.38 million equivalent to Rs.5.96 million had been claimed by the contractor on 15 November 2017, due to shifting of the location of the construction. As a result, the activities of the Project had not been completed within the scheduled period.

3.4 Underutilized Assets

Although the constructions and development activities of Base Hospitals in Galgamuwa and Theldeniya had been completed and opened for the public use on 20 July 2017 and 11 April 2017 respectively, many of the units in those hospitals facilitated with modern equipment had not been used even as at 31 December 2017, due to lack of trained staff thereon. Therefore, the Premature Baby Unit, Surgical Intensive Care Unit, Hemodialysis Unit, Gynecology and obstetrics Unit, Emergency Treatment Unit, Endoscopy Unit and Dental Unit established at Galgamuwa Base Hospital at a cost of Rs.612.56 million had remained underutilized. According to the information received, the surgeries at the Operation Theatre of the Galgamuwa Base Hospital were continued in 02 days per week only for the patients pre-registered and the surgeries under emergency situations were not accepted. Eventhough a sum of Rs.560.72 million had been spent for civil construction works and procure Bio Medical Equipment for the Theldeniya Base Hospital, the Medical Intensive Care Unit and Operation Theatre had remained unutilized even as at 31 December 2017.