

## **Second Health Sector Development Project - 2017**

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The audit of Consolidated Financial Management Report of the Second Health Sector Development 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 Financing Agreement No.5228-LK dated 19 August 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association (IDA).

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

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According to the Financing Agreement of the Project, the Ministry of Provincial Councils, Local Government and Sports is the Executing Agency and Provincial Ministries of Health of the Provincial Councils are the Implementing Agencies 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 is SDR 129.8 million (US\$ 200 million) equivalent to Rs.26,000 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 Report**

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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**

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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 Statements had been prepared in conformity with Financial Regulation 150 and the circular instructions issued by the Chief Secretaries of the respective Provincial Councils.
- (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 2017 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 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 Provincial Councils. The costs incurred out of the proceeds of

Loan had been duly recorded in the Appropriation Accounts of the Provincial Councils and Operating and Monitoring Support Unit for the year 2017,

- (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. 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 2017

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	as at 31 December 2017
	US\$ million	Rs. million	Rs. million	Rs. million	Rs. million
IDA	200	26,000	3,260	3,130.67	11,086.50
<b>Total</b>	<b><u>200</u></b>	<b><u>26,000</u></b>	<b><u>3,260</u></b>	<b><u>3,130.67</u></b>	<b><u>11,086.50</u></b>

are shown below.

The following observations are made.

- (a) According to Consolidated Financial Management Report of the Project, a sum of Rs. 365 million for each Provincial Council had been made through Budget Estimate 2017 to meet capital and recurrent expenditure respectively for the provincial health sector. Out of the allocation amounting to Rs.3,260 million made to implement the activities of the Project including the allocation of Rs.20 million made to the Operation and Monitoring Supporting Unit, only a sum of Rs.3,130.67 million had been utilized as at 31 December 2017. However, the allocations of Rs.278 million and Rs.110 million made for Provincial Health Ministries of the Central Province and North Central Province respectively had not been released by General Treasury.
- (b) Out of the allocation amounting Rs.360 million released by the General Treasury for the Provincial Health Ministris of the Southern Province, only a sum of Rs.338.46 million had been utilized thereon as at 31 December 2017. The proceeds unspent amounting to Rs.21.54 million had been retained in a Provincial Fund Account maintained by the Provincial Council.

## 3.2 Physical Progress

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According to the Project Documents, the physical targets of the Project are required to be achieved through 09 Disbursement Link Indicators and 11 Non-Disbursement Link Indicators. The detailed audits carried out at the provincial level had revealed that the intended benefits had not been reached up to the level expected by the Project to improve the health and care facilities to the underprivileged sectors of the society in remote areas of the country. The matters revealed are described below.

- (a) It was observed that a sum of Rs.2.44 million spent by the Project for the purposes such as repairs of the quarters, foreign visits and renovation works of play grounds etc in the Sabaragamuwa Province were not included in the documents of the Project, as the targets to be achieved by the Project. Further, a sum of Rs 12.12 million spent, out of the allocations amounting Rs.41 million made for the domestic trainings and capacity development purposes of the Provincial Health Ministry of the Sabaragamuwa Province were not directly related to the intended purposes of the Project.
- (b) According to the Disbursement Link Indicator - 04, it was expected to obtain the health information through e-IMMR system from 382 provincially managed hospitals as at 31 December 2017, out of 546 such hospitals selected for the respective purposes. Therefore, 446 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 of receiving of information was observed during the year under review from 07 Divisional Hospitals in Trincomalee district and 23 District Hospitals in Badulla district.
- (c) 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 for 3,646 Maternal and Child Health Clinics, out of 3,841 such Clinics held in island wide. A test check made thereon had revealed that the necessary equipment and other facilities had been provided only for 294 Maternal and Child Health Clinics, out of 354 such clinics situated in Kurunegala district.
- (d) According to the Disbursement Link Indicator 06, at least 02 healthy lifestyle centres per each area under the purview of a Medical Officer of Health were expected to be established during the period of the Project. Therefore, 331 of healthy lifestyle centres were expected to be established island wide as at 31 December 2017 and out of that 311 healthy lifestyle centres had been established as at 31 December 2017. As per work plans, 150 healthy lifestyle centres were scheduled to be established in Monaragala, Nuwaraeliya, Colombo, Kandy and Badulla district. Out of that only 124 healthy lifestyle centres had been established in the respective areas as at 31 December 2017.
- (e) According to the Non-Disbursement Link Indicator - 01, the Project had allocated funds to control of non-communicable diseases and improve the quality of Suwadiwi

clinics to carry out medical tests on diabetics, high blood pressures and cancer for the persons over the age of 40 years. It was expected to examine 5,305,576 persons over the age of 40 years island wide as at 31 December 2017 and only 1,431,468 persons were examined as at that date.

- (f) According to the requirement of the Non-Disbursement Link Indicator - 06, it was expected to maintain a buffer stock for 16 drugs for selected non-communicable diseases at 524 Primary Health Care Institutions, out of the 890 such institutions. However, it was observed that 81 Primary Health Care Institutions in Puttalam, Galle, Batticaloa, Kurunegala and Trincomalee districts had not taken action to maintain the required level of drugs in stock during the year under review.
- (g) According to the requirement of the Non Disbursement Link Indicator -11, it was expected to maintain standard waste management practices and required to obtain Environment Protection License and Hazardous Waste License by selected 69 hospitals island wide including 28 Base Hospitals. However, only 12 hospitals had obtained licenses for waste management systems as at 31 December 2017.

### 3.3 **Contract Administration**

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The following observations are made.

- (a) According to the information received, 30 construction works at the provincial hospitals of the Sabaragamuwa Province were expected to be commenced during the year under review and allocations aggregating Rs. 237.84 million had been made thereon. However, the works under 20 construction contracts to be completed at an estimated cost of Rs. 55.17 million had not been commenced even as at 31 December 2017. Further, 03 construction contracts awarded at an estimated cost of Rs. 33.16 million had been subsequently cancelled. The physical progress of the construction works under other 07 contracts awarded at a cost of Rs.237.84 million had remained in the range from 15 per cent to 90 per cent as at 31 December 2017.
- (b) The construction works of Provincial Health Training Centre at Bandarawela, District Hospital at Buththala and Base Hospitals at Boralanda and Welimada in the Uva Province expected to be completed by 31 December 2017 at an estimated cost of Rs. 279.90 million had not been completed as at 30 June 2018. Further, the construction works commenced at the Base Hospital at Mahiyanganaya had been abandoned during the year under review.

### 3.4 **Idle/Underutilized Assets**

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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 and allied facilities available at the hospitals. Instances observed at the site visits are as follows.

- (a) It was observed that the Health Centre rehabilitated at a cost of Rs.2.48 million at Dambemada in the Sabaragamuwa Province had not been used for the intended purposes, due to lack of water supply and electricity. Further, it was revealed at the site visit that 280 Gang Chairs, 79 BP Apparatus and 3 wall Oxygen Regulators procured by the Project at a cost of Rs.11.04 million had remained idle without being distributed to the provincial hospitals in Sabaragamuwa Province even as at 30 of May 2018. In addition, the physical inspection made at the regional hospitals at Balangoda, Eheliyagoda, Embilipitiya, Kahawaththa, Warakapola, Mawanella and Karawanella in the Sabaragamuwa Province had observed that the equipment such as Dental X-Ray machines, Gang Chairs, Mortuary Freezer, Mattress and Slit Lamps procured at a cost Rs. 46.51 million remained idle for over one year.
- (b) The Health Service Provincial Director's Office in Sabaragamuwa Province had released 200 Gang Chairs to the Base Hospital at Embilipitiya in 03 occasions in February and April 2017. However, according to the records maintained by the Hospital, only 151 Chairs had been received as at 30 May 2018.
- (c) It was observed that laboratory of the District Hospital at Manikhinna in the Central Province remained unutilized, due to lack of other necessary equipment.
- (d) It was observed that the Solid Waste Management Unit constructed by the Project at a cost Rs. 1.16 million and handed over on 07 December 2017 to the Base Hospital at Higurukaduwa in the Uva Province had remained idle even up to 30 June 2018. Further, the office equipment such as computers, printers, photo copiers and multimedia projectors etc procured by the Project at cost Rs. 3.31 million had remained idle, as the building construction works of the Health Service Training Centre in the Uva Province had remained uncompleted even as at 31 March 2018.
- (e) It was revealed that the medical instruments and other equipment procured at a cost of Rs. 18.38 million and handed over to the Base Hospital at Bibila, Divisional Hospital at Dambaglle, Deputy Provincial Director's Office in Badulla in Uva Province had remained idle over a year.
- (f) An eye surgical bed procured at a cost Rs.3.25 million in December 2017 had remained idle even up to 30 June 2018 at the premises of the District Hospital at Bandarawela in the Uva Province, as the surgical operations were not commenced due to shortage of an Eye Surgeon, 04 Medical Officers and other staff members in the Hospital. Further, Intensive Care Unit constructed at cost of Rs.5 million at the Base Hospital at Bibila in Uva Province and medical equipment procured at a cost of Rs. 6.64 million thereon had remained idle, over a year, due to shortages of the Medical Officers.