

Second Health Sector Development Project – Component -I -2017

The audit of Financial Report of the Second Health Sector Development Project Component-I 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.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Financing Agreement, the activities of the Project at national level are expected to be implemented by then Ministry of Health, presently the Ministry of Health, Nutrition and Indigenous Medicine at national level whilst the activities at provincial level are expected to be carried out by the Ministry of Provincial Councils and Local Government. According to the Project Appraisal Document, the Project is implemented to provide financial support to implement the National Health Development Plan for the year 2013-2017. 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 (US\$ 200 million) equivalent to Rs. 25,270 million and out of that SDR 123.31 (US\$ 190 million) equivalent to Rs. 24,006 million had been allocated for the activities to be carried out under the Component -I of the Project. The Project commenced its activities on 01 July 2013 and scheduled to be completed by 30 September 2018. This report consisted with the comments on activities carried out by the Ministry of Health, Nutrition and Indigenous Medicine at national level and the financial statements for Components-I of the Project which presented separately.

1.3 Responsibility of the Management for the Financial Report

Management is responsible for the preparation and fair presentation of these Financial Report which is the compilation of the Appropriation Accounts of the Ministry of Health, Nutrition and Indigenous Medicine in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of Financial 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 Financial 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 Financial Report is free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial 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 Financial 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 Financial 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 Financial 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 incurred by the Ministry of Health, Nutrition and Indigenous Medicine 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 and the identification of purchases 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 Health Sector.
- (f) Whether the Financial Report had been prepared in conformity with Financial Regulation 150 and the State Accounts Circular No. 258/2017 of 16 October 2017 of the Department of State Accounts.
- (g) Whether the 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 Financial Report based on the Appropriation Accounts of the Ministry of Health, Nutrition and Indigenous Medicine 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 the State Accounts Circular No. 258/2017 of 16 October 2017. The above Appropriation Accounts were agreed with the Treasury computer printouts, the Annual Budget Estimates, books, registers and records maintained by the Ministry of Health, Nutrition and Indigenous Medicine,
- (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.

2.2 Comments on Financial Statements

2.2.1 Non- Compliance with Laws, Rules and Regulations

The core staff positions of the Project including the Project Director and an Accountant attached to the Line Ministry had been deployed by the Project on acting basis, contrary to the directions made through the Letter No. DMS/C/1/16/ Proj. of 21 May 2014 of the Department of Management Services to recruit such officers on full time basis. This matter was highlighted in my reports for the previous years also and no action taken to rectify.

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 are shown below.

Source	Amount agreed for financing as per the Financing Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
IDA Component-I	190	24,006	3,106	07.56	1,160.03	23.61	3,619.40
	<u>190</u>	<u>24,006</u>	<u>3,106</u>	<u>07.56</u>	<u>1,160.03</u>	<u>23.61</u>	<u>3,619.40</u>

The following observations are made.

- (a) According to the Project Appraisal Document, US\$ 43.75 million equivalent to Rs.6,707.55 million was scheduled to be disbursed for the year under review by the Leading Agency. However, provision of Rs.3,636 million for the Line Ministry and Rs.3,260 million for the Provincial Ministries of Health had only been allocated in Budget Estimate for the year under review. Out of the above allocation, a sum of Rs.4,751.46 million representing 68.95 per cent had only been utilized during the year under review.
- (b) According to the above information, out of the total allocation of US\$ 190 million equivalent to Rs.24,006 million made under the Project, only a sum of US\$ 23.61 million equivalent Rs.3,619.40 million representing 15.08 per cent of the total allocation had been utilized by the Line Ministry as at 31 December 2017. Therefore, the possibility of use of entire allocation during the remaining period of 01 years of the Project is remained in doubt.

3.2 **Physical Progress**

The physical targets expected to be achieved under the Project are based on 03 Disbursement Link Indicators and 11 Non-Disbursement Link Indicators. According to the information received, the desired results of 03 Disbursement Link Indicators and 07 Non-Disbursement Link Indicators had been achieved as at 31 December 2017. The observations made on the achievement of targets stipulated under the Disbursement Link Indicators and Non-Disbursement Link Indicators are given below.

- (a) According to the Action Plan of the Project for improvements of the emergency treatments services of the hospital in Sri Lanka under the Disbursement Link Indicator- 01, it was expected to construct new Emergency Treatments Care Units in 14 hospitals and upgrade the facilities of existing Emergency Treatments Care Units in other 14 hospitals throughout the island. According to the audit investigations, 12 contracts on upgrading of existing Emergency Treatments Care Units had only been completed as at 31 December 2017. The contracts at a cost of Rs.1,192 million to

construct 04 new Emergency Treatments Care Units, out of 14 such Units had been awarded in 2015, none of the construction works had been completed after lapse of 03 years from the date of commencement of the works. Though the construction works at General Hospital in Polonnaruwa were not completed as at 31 December 2017, it was shown as a completed work in the reports on achievements of Disbursement Link Indicators of the Project.

- (b) According to the Action Plan of the Project, 13,861 persons were expected to be tested island wide to detect cases of Tuberculosis under the Non-Disbursement Link Indicators- 09 in order to increase the detection ratio of Tuberculosis cases, provide education of general public, conceptual change among general public and use of modern detection technologies thereon. However, only 10,811 persons were detected during the year under review. According to the audit point of view, the identification of new Tuberculosis patients is mainly depended on the awareness of the patients on identification of diseases and continuous treatments thereon and it had not implemented adequately.
- (c) The Project had taken action to measure the performance of the 'A' Grade Base Hospitals as enable to obtain Environment Protection License and Schedule Waste Management License according to the National Environmental Act, No.47 of 1980, under the Non-Disbursement Link Indicators- 10. According to the information received, only 12 Hospitals, out of 69 'A' Grade Base Hospital had qualified to obtain the Licenses representing only 17.4 per cent on the expected target of 30 per cent to be achieved under the Non-Disbursement Link Indicators- 10 during the year under review.
- (d) According to the Non-Disbursement Link Indicator – 11, it was planned by the Procurement Division of the Line Ministry to procure 665 goods and services during the year under review and required to be awarded contracts to procure more than 80 per cent of such items during first 09 months of the year under review. However, the contracts to procure 470 items had only been awarded during first 09 months of the year.

3.3 Contract Administration

The following observations are made.

- (a) According to the information received, the unsolicited proposals made in September 2010 by 02 foreign suppliers to supply and commissioning of cancer treatment equipment such as 14 Linear Accelerators, 08 CT Simulators and 08 Brachytherapy Machines at a cost of US\$ 53.38 equivalent Rs.6,853.46 million had been rejected, due to unacceptable financial conditions included therein. However, the respective contract had been awarded in 2015 to the same supplier at same prices without calling fresh bids internationally. Further, 02 Linear Accelerators valued at Rs.476 million supplied on 02 December 2015 and remained at the Teaching Hospitals in Jaffna and Batticaloa as the concrete bunkers to install respective machines was not constructed even as at 31 May 2018.

- (b) A sum of Rs.484.2 million had been allocated by the Project to construct new buildings for Emergency Treatments Unit at the General Hospitals at Kalutara, Polonnaruwa, Jaffna and Base Hospital in Kalmunei in order to implement the National Policy for Accident and Emergency Care Services introduced in 2015. The following observations are made on the contract awarded on construction of building of General Hospital at Kalutara.
- (i) The construction contract had been awarded to a public corporation under 02 stages at an estimated cost of Rs.922 million on turnkey basis, without adopting the Government Procurement Guidelines in order to complete the works on urgent basis. However, the construction works of Stage-01 had not been completed as at 31 December 2017 even after lapse of 10 months from the date scheduled to be completed. Further, there was no written agreement had been entered in to with the contractor.
 - (ii) The consultancy services had also been obtained from the same public corporation of the contract awarded for construction works, contrary to the provisions made in the Government Procurement Guidelines and without entering in to a written agreement. Further, action had not been taken to recover the payment amounting to Rs. 11.14 million made on consultancy services from the mobilization advance released on construction works.
 - (iii) Eventhough the estimated cost of the construction of the building under Stage -01 amounting to Rs.328.75 million had been increased by Rs 38.71 million, the evidences on required approval thereon had not been made available for audit. Further, the claims for the variations of the construction works under Stage -01 amounting Rs.19.47 million as at 31 December 2017 had been settled without the approval of the Secretary of the Line Ministry. The required approval from the Secretary of the Line Ministry as per paragraph 8.14.1 of the Government Procurement Guidelines had also not been obtained for the extension of period of the construction works up to 15 May 2018.
 - (iv) It was observed that payments relating to the works certified under Stage-01 of the contract amounting to Rs 2.09 million had been accounted as the work certified under the Stage -02 of the contract.

3.4 Issues on Financial Controls

According to the Financial Regulation 133 (2) and the Management Audit Circular No. 05 of 26 June 2010, the Internal Audit Section of the Line Ministry should prepare and implement an Audit Plan on the activities of the Project. However, no evidence had been received for audit on such an Internal Audit Plan had been prepared separately and implemented during the year under review. Eventhough an Internal Auditor to the Project had been recruited with the approval of the Management Services Department on 14 August 2017, no evidence had been received on internal audit activities carried out until his resignation made on 01 December 2017.

3.5 Matters in Contentious Nature

The Project had taken action to enter in to an agreement with a private company to procure a computer based software system at a cost of Rs.4.70 million to manage the fleet of vehicles of the Line Ministry. The following matters are observed during the course of audit.

- (a) The respective agreement had been signed by the Director of Transport Division of the Line Ministry, contrary to the provisions made under the Financial Regulation 135 and the Circular No. Health/CA/01/2016 of the Ministry of Health, Nutrition and Indigenous Medicine of 06 January 2016.
- (b) The agreement was signed on 29 February 2016 to operate the activities with effect from 18 December 2014 and scheduled to be completed in 30 June 2016. The software installation activities had not been completed until 31 December 2017 and no action had been taken to extend the period of the agreement even as at 31 December 2017.
- (c) A sum of Rs.1.88 million had been released to the supplier without obtaining a performance guarantee.