

## **Health System Enhancement Project - 2018**

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The audit of financial statements of the Health System Enhancement Project for the year ended 31 December 2018 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 provisions in the Loan and Grant Agreements No. 3727-SRI(COL) and 0618-SRI(SF) dated 26 October 2018 respectively entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be report to Parliament appear in this report.

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

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According to the Loan and Grant Agreements, the Ministry of Health, Nutrition and Indigenous Medicine is the Executing Agency and four provincial councils of Central, North Central, Sabaragamuwa and Uva provinces are the Implementing Agency of the Project. The objectives of the Project are improve efficiency, equity and responsiveness of the Primary Health Care System based on the concept of providing universal access and continuum of care to quality essential health services. As per the Loan and Grant Agreements, the estimated total cost of the Project amounted to US\$ 60 million equivalent to Rs.9,300 million and out of that US\$ 37.50 million equivalent to Rs.5,813 million as a Loan and US\$ 12.50 million equivalent to Rs.1,937 million as a Grant was agreed to provide by the Asian Development Bank. The Project had commenced its activities on 01 December 2018 and scheduled to be completed by 30 November 2023.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

## 1.6 Auditor's Responsibilities for the audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Physical Performance

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### 2.1 Physical progress of the activities of the Project

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Activity	Audit Issue	Impact	Comments of the Management	Recommendation
Calling bids for procurement	According to Administration Project involved	Project Manual, in activities to completion	Possible delays in Manual mainly the	Several areas of Project Implantation complete the works

of goods, improve efficiency, equity and works and responsiveness of the Primary Health Care System of 135 provincial hospitals and the process of calling of bids under 28 procurement activities for equipment, furniture and consultancy services etc. need to be completed by 31 December 2018. According to the information received, only 03 activities on procurements of office equipment, furniture and consultancy services at an estimated cost of Rs.181.35 million had been completed as at that date.

Procurement Plan according to the Action Plan. are subjected to revised in time to time, due to the reasons such as priority of requirements, changes to initial action plans and fund flow etc.

## 2.2 Contract Administration

The following observations are made.

<b>Audit Issue</b>	<b>Impact</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Technical Evaluation Committee was not appointed on procurement of furniture at a cost of Rs.4.89 million and Performance Guarantee for 01 year period had been obtained from the selected supplier instead 03 years Guarantee requested.	Allowing rooms to supply furniture with inferior quality and rear opportunity take actions against the supplier.	Since the Project Management Unit had not been established at the time of initiation of the procurement activities.	The requirements stipulated in the Government Procurement Guidelines should be applied as enable to ensure the transparency of the procurement process applied.
(b) Eventhough the procurements with estimate cost over Rs.15 million should be followed by National Competitive Bidding under Project Procurement Committee, the office equipment at	The competitiveness among the bidders not assured.	According to the Initial Project Procurement Plan it is expected to procure office equipment to the Project Monitoring Unit and Project Implementing Units during the 5 years	The requirements stipulated in the Government Procurement Guidelines should be applied as enable to ensure the transparency of the procurement process applied.

an estimated cost of Rs.23.25 million had been procured by the Project following Shopping Procedure, contrary to paragraph 2.14.1 of the Procurement Guidelines.

periods and complete the procurement in time to time. Therefore, procurement done in 2018 under this package had not been exceeded ceiling amount.

**2.3 Matters in Contentious Nature**  
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<b>Audit Issue</b> -----	<b>Impact</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
It was observed that a bid submitted without the signature of the Bidder for hiring of office space for Project Management Unit had been assessed. Further, it was revealed that 03 bids were submitted by a same bidder for the above mentioned purpose in fraudulent manner.	Allowed rooms for fraudulent transaction.	Bid without a signature of the bidder is not a valid bid and should be rejected at the bid evaluation. In this case TEC has mistakenly consider such bid for further evaluation.	The requirements stipulated in the Government Procurement Guidelines should be applied as enable to ensure the transparency of the procurement process applied.