

## **Epilepsy Hospital and Health Centres Project - 2018**

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The audit of financial statements of the Epilepsy Hospital and Health Centres 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 provision in 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. My comments and observations which I consider should be reported to Parliament appear in this report.

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

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According to the Loan Agreement, the Ministry of Health, Nutrition and Indigenous Medicine is the Executing Agency 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 Centres in each Provinces. As per the Loan Agreements, Saudi Riyal 75 million equivalent to Rs.3,000 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.1,800 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 06 times up to 31 December 2018.

### **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 Generally Accepted Accounting Principles.

### **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 Generally Accepted Accounting Principles, 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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According to the information received, the construction works of 08 storied building for Epilepsy Hospital scheduled to be completed by 03 April 2014 had been completed with delays in 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. The following observations are made.

<b>Audit Issue</b>	<b>Impact</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) An 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 Centres had also been entirely used for construction of the building and procure medical and other equipment of the Epilepsy Hospital.	The allocations not used effectively to achieve the objectives	Not Commented	Need to investigate the reasons for weaken financial controls over the Project expenditure
(b) The Project had planned to establish 09 Provincial Health Centres at a cost of Saudi Riyal 161.25 million equivalent to Rs.6,295.72 million throughout the island. However, the activities relating to construction of 09 Health Centres equipped with out-door patient clinics, laboratories and training centres had not been commenced as at 31 December 2018.	The intended objectives of the Project not achieved.	Not commended	Needed to investigate the failures of project management aspects to minimize the risk on implementation of failure projects.

## 2.2 Payments made out of the Project Objectives

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<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
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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.	Allocation of funds not used to achieve intended purposes	Not commended.	The entire allocation of the Project should be utilized strictly to achieve the objectives of the Project.

### 2.3 Idle and Underutilized Resources

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
The Positron Emission Tomography Scanner (PET) procured by the Project at a cost of US\$ 1.35 million equivalent Rs.176 million had remained idle over 18 months as at 31 December 2018, due to unavailability of mandatory spare parts including the unit of Uninterrupted Power System of which not specified in the original bid documents. Further, the supply of essential chemical of "Radioactive Flideoxyglucose" for the use of the Scanner machine and onsite and foreign training programme to relevant officers of the hospitals agreed to provide by the supplier of the machine had not been completed until 31 December 2018.	The intended purposes from the medical equipment may not fulfill and warranty period expires without using the machine.	Not commended.	The equipment should be fully utilized in maximum capacity to achieve the intended purposes.