

## **Health and Medical Service Improvement Project - 2019**

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The audit of financial statements of the Health and Medical Service Improvement Project for the first accounting year ended 31 December 2019 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 section 12 of Annex II of Minutes of Discussions held on 30 November 2017 between the Democratic Socialist Republic of Sri Lanka and Japan International Cooperation Agency.

### **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 presently the Ministry of Health is the Executing Agency and Project Management Unit is the Implementing Agency of the Project. The objective of the Project is to improve the medical service for diagnosis and treatment of non-communicable diseases, especially cardiovascular diseases, by improving the medical facilities and equipment in tertiary hospitals and related facilities, thereby contributing to enhancing the health of the people of the project area. As per the Loan Agreement and Minutes of Discussions, the estimated total cost of the Project was Japanese Yen 11,352 million equivalent to Rs.16,559 million. Out of that, Japanese Yen 10,639 million equivalent to Rs.15,519 million was agreed to be financed by Japan International Cooperation Agency. The balance amount of Rs.1,040 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 20 October 2018 and scheduled to be completed by 20 October 2025.

### **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 2019, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 Public Sector 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. Non- Compliance with Laws, Rules and Regulations

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<b>Reference to the Laws Rules and Regulations</b>	<b>Non Compliance/Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Paragraph 2.2.8 of the Management Services Circular No. 01/2019 dated 15 March 2019	According to the Circular instructions, project employees over the age of 67 years should not be recruited for the project.	Interview Board for the selection of a Deputy Project Director was chaired by the Secretary to the Ministry of Health. The	The project should comply with the requirements stipulated in the circular.

However, an employee who will complete 69 years at the end of the project period had been recruited to the project. However, an employee said interview board had considered the qualifications and experience for the said post over the limitations specified in the said circular.

**3. Physical Performance**

**3.1 Physical Progress of the Activities of the Project**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
According to the Project Implementation Schedule, the selection of a consulting service for the project was scheduled to be completed in 2018, but the signing of contracts for the consulting service had been delayed until 18 February 2020. As a result, constructions and procurements to be operated under the project had been delayed, and also resulted in a delay of Rs.659.48 million loans during the year under review.	Implementation Schedule in the Final Minute of Discussion does not reflect the actual implementation of the project. It has been prepared to provide information regarding the implementation structure of the project to the Government of Japan through the JICA. Such temporary scheduling had been prepared by the Japanese Team who prepared the Document titled as Preparatory Survey, during the period of 2016 and 2017, and confirmed by the JICA Appraisal Mission from Tokyo Japan.	Actions should be taken to expedite the fulfillment of the project activities according to Project Implementation Schedule.

**3.2 Underutilized Resources**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Although the Government of Sri Lanka had provided Rs. 40 million for the project, it had achieved a financial performance of Rs. 14.58 million or less than 36 per cent.	Project Management Unit concluded the Evaluation of bidders for consulting services and expected to award the tender for consultancy in November 2019. Unfortunately, due to time taken for hearings at the Procurement Appeal Board and also in receiving Legal Clearance from Attorney General's Department, the awarding to contract for consultancy was delayed till February 2020.	Actions should be taken to implement the project activities timely in accordance with Project Implementation Schedule.