

Health System Enhancement Project - 2019

The audit of financial statements of the Health System Enhancement Project for the 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 Article IV of the Loan and Grant Agreements No.3727-SRI(COL) 5 and No. 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 observation which consider should be report to parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan and Grant Agreements, then Ministry of Health, Nutrition and Indigenous Medicine, presently the Ministry of Health is the Executing Agency and four Provincial Councils of Central, North Central, Sabaragamuwa and Uva Provinces are the Implementing Agencies of the Project. The objectives of the Project are improve efficiency, equity and responsiveness of the primary health care system (PHS) based on the concept of providing universal access and continuum of care to quality essential health services. The activities of the Project are implemented under three components namely (a) Primary health care enhance in Central, North Central, Sabaragamuwa and Uva Provinces (b) Health information system and disease surveillance capacity strengthen, Policy development, capacity building and (c) project management support. As per the Loan and Grant Agreements, the estimated total cost of the Project was US\$ 60 million equivalent to Rs.9,300 million and out of that US\$ 37.5 million equivalent to Rs.5,812 million as concessional loan and the grant of US\$ 12.5 million equivalent to Rs.1,938 million respectively were agreed to be financed by the Asian Development Bank. The balance amount of US\$ 10 million equivalent to Rs.1,550 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 01 December 2018 and scheduled to be completed by 30 November 2023.

1.3 Opinion

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 Generally Accepted Accounting Principles.

1.4 Basis for Opinion

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

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

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. Comments on Financial Statements

2.1 Non- compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non- compliance	Impact	Management Response	Auditor's Recommendation
Paragraph 9.3 of the Management Services Circular No.01/2019 dated 05 March 2019.	Although the Project Steering Committee would meet at least once in two months, the Committee had been met only one occasion during the year under review.	Violation of Circular instructions	In practice, it is very difficult to get members to attend meetings.	The Steering Committee should meet at least once in two months.

3. Physical Performance

3.1 Physical Progress of the activities of the Project

Activity	As at 31 December 2019		Audit Issue	Reasons for delay
	Expected physical performance Units	Performance achieved Units		
Procurement of equipment and consulting services etc.	28	23	Bidding procedures of 05 procurements with an estimate cost of Rs.176.31 million had delayed from 04 to 92 days.	Weaknesses in planning and implementation of Project activities.
Management Response	Delays were due to difficulties in obtaining the assistance of consultants for the preparation of specifications. Further, the procurement of obtaining international consultancy for Distance Learning will be postponed until 2023.			
Auditor's Recommendations	Project activities should be planned and completed in a timely manner.			

3.2 Contract Administration

The following observations are made regarding the procurement of Design and Supervision Consultancy for Infrastructure Development.

Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a) The Terms of Reference, Total Cost Estimate and Expression of Interest had not been prepared under the supervision of the procurement committee in terms of paragraph 2.4.1 of the Selection and Employment of Consultants Guidelines, due to the delay in appointing a Cabinet Appointed Consultants Procurement Committee.	Contrary to the Selection and Employment of Consultants Guidelines	The Ministry Consultants Procurement Committee has carried out the initial activities of the procurement until Cabinet Appointed Consultants Procurement Committee was appointed.	The relevant procurement committee should be appointed beginning of the procurement process and the committee should be responsible for entire process.
(b) As per the paragraph 5.1.1 of the Selection and Employment of Consultants Guideline, the standard period of time is 20 weeks for Quality and Cost Based Selection method procurement. However, a period of almost one year had been taken for the above mentioned procurement.	Inefficiency	This is due to the time taken to obtain approvals in practice beyond the control of the Procurement Committee.	Procurement should be conducted efficiently as per the Guidelines.
(c) According to the paragraph 3.4 of the Selection and Employment of Consultants Guideline, the Cost estimate of procurement should be prepared in line with the realistic budgetary allocation. However, the initial cost estimate of the contract was Rs.150.35 million and the actual value had been increased up to Rs.320.41 million representing an increase of 113 per cent.	Cost overrun	The procurement was planned during Project preparation period and therefore the estimate had been done on assumptions.	Cost estimate should be prepared realistically.

3.3 Matters in Contentious Nature

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a) According to the Procurement plan, the Project had scheduled to procure 67 motor vehicles including 05 vehicles for Line Ministry and the Project Director. However 02 vehicle had been rented out by spending Rs. 8.18 million during the year under review for the Project Director and the Project office, due to delay in the procurement process.	Having to incur extra costs to the project	The special approval was obtained from National Budget Department and the Asian Development Bank. The procurement was advertised on 11 November 2019.	Expedite the procurement process to curtail the extra costs.
(b) Capacity Building programme was planned to be continued entire Project period and a total sum of USD. 2 million equivalent to Rs. 340 million had been allocated for this purpose. The following observations are made.			
(i) Except two-days financial and procurement training programme conducted for 52 members of the staff under local training programs by spending a sum of Rs.0.67 million which represents only 0.11 per cent of the entire training plan, no any training programme had been conducted by the Project up to the end of the year under review.	Project targets couldn't be achieved.	The updated training plan had been delayed to furnish to the Ministry of Health and furnished to Asian Development Bank for their concurrence. The foreign training were delayed due to delay in applying for those programmes.	Project activities should be completed smoothly during the Project period.
(ii) Although the Annual Human Resources Development Plan to be approved by the Project Steering Committee before implementation as per paragraph 08 of the Guideline for Implementation of the Human Resource Development Plan for 2019 to 2023, the approval of the	Contrary to rules and regulations	The Steering Committee approval had been obtained on 18 February 2020 for the Master Human Resources Development Plan including these training programmes.	The Project Steering Committee approval should be obtained before implementing the Human Resources Development Plan.

Human Resources Development Plan for the year 2019 had been delayed until 18 February 2020. Accordingly, the local training program conducted for the Project staff during the year 2019 had been held without the approval of the Project Steering Committee.

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| (iii) | Although the Project Director shall appoint a Human Resources Development Committee to plan the training programs to be implemented in accordance with the Guidelines for the Implementation of Human Resources Development, the appointment of the committee had been delayed until 25 October 2019. Although the committee should be met at least once in two months, any meeting had not been conducted during the year under review. | Contrary to rules and regulations | Steps will be taken to obtain approvals for future training programmes. | Human Resources Development Committee should be appointed to plan the training programmes as per Asian Development Bank guidelines. |
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3.4 Issue relating to Human Resources Management

Cadre Position -----	Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Internal Auditor	Eventhough approval of the Department of the Management Services had been received to appoint an Internal Auditor on permanent basis for the Project on 14 December 2018, the Chief Finance Officer in the Line Ministry had been recruited as Internal Auditor on acting basis during the year under review.	The intended duty may not be achieved.	The selected officer was appointed on a part-time basis with the concurrence of the Asian Development Bank as she could not be released on full-time duty.	The Internal Auditor should be appointed permanently as approved by the Department of Management Services.

3.5 System and Control

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
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The Board of Surveys relating to Property, Plant and Equipment procured at a cost of Rs.19.67 million had not been completed by the Project office during the year under review.	Possibility of misuse of Project assets	Steps will be taken to submit the report as soon as verifications are completed.	Assets verifications should be conducted as per the Circular instructions.