

Primary Health Care System Strengthening Project – Component II - 2019

The audit of financial statements of the Primary Health Care System Strengthening Project – Component II for the first accounting period from 01 February 2019 to 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 the Article II of the Loan Agreement No. 8878 LK dated 16 May 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction and Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Health, Nutrition and Indigenous Medicine, presently the Ministry of Health is the Executing and Implementing Agency of the Project in collaboration with Ministry of Provincial Councils, Local Governments and Sports presently the Ministry of Public Services, Provincial Councils and Local Government. The objective of the Project is to increase the utilization and quality of primary health care services with an emphasis on the detection and management of non-communicable diseases in high-risk population groups in the selected areas of the country. The activities of the Project are implemented under 03 parts namely (a) implementation of the Primary Health Care System reorganization and strengthening strategies, (b) implementation support and innovation grants and (c) contingent emergency response. As per the Loan Agreement, the estimated total cost of the Project was US\$ 4,419 million equivalent to Rs.697,936.86 million and out of that US\$ 200 million equivalent to Rs.31,588 million was agreed to be financed by International Bank for Reconstruction and Development. Out of that US\$ 14.22 million equivalent to Rs.2,245.12 million had been allocated for the Project implementation support and innovation grants to be carried out under Component-II of the Project. The Project had commenced its activities on 01 February 2019 and scheduled to be completed by 31 December 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, receipt and payments account 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 Presentation of Financial Statements

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
As per paragraph 64 of the Project Appraisal Document, the Project office should have prepared two separate financial statements reflecting health sector expenditure incurred by central level and provincial level and amalgamated financial statements under Component-I of the Project. However, two separate financial statements had not been prepared and furnished to audit by the Project.	Non-compliance with the requirements of the Project Appraisal Document.	The preparation of the financial statements is still in progress.	Two separate financial statements reflecting health sector expenditure incurred by central level and provincial level and amalgamated financial statements should be prepared and furnished to the audit without delay.

2.2 Non- compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations -----	Non- compliances -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a) Paragraph 9.3 of the Management Services Circular No.01/2019 of 05 March 2019.	Although the Project Steering Committee required to meet at least once in two months, the Committee had met only two occasions during the period. Further, out of 26 members appointed to the Committee, the average participation of the members at the meetings was less than 54 per cent.	Failure to achieve the objectives of setting up the Committee .	Due to the busiest nature of the duties, it would be very difficult to reserve a date from both Secretaries. The attendance of the committee members was not as expected and will be supposed to discuss with the Secretary of the Provincial Ministry to increase the participation.	Project Steering Committee meetings should conducted as per Circular instructions and action should be taken to increase the participation of the members of the Committee.
(b) Prime Minister Office Circular No.PM/PS/05 dated 30 November 1989	Although a report should be submitted by the officers who return to the island after foreign travels, such	Violation of Circular instructions	Steps were taken to inform the Secretary of the Ministry.	The report should be submitted without delay.

report had not been furnished by 27 officers who visited in Thailand, Costa Rica and China tours.

- (c) Finance Ministry Circular No. MF/6/1/1/2015 dated 15 May 2015. Although Allowance of US\$ 40 per day could be paid, a sum US\$ 3,850 and US\$ 210 had been over paid for 11 officers who participated for training programmes conducted in Costa Rica and China respectively. Incidental Violation of instructions in the Circular. Steps will be taken to recover the excess payments. Action should be taken to recover the excess payments.

3. Physical Performance

3.1 Delays in Commencements of Activities of the Project

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
As per paragraph 59 of the Project Appraisal Document, the approval of the Project Review Committee and the Project Steering Committee had not been obtained for implementation of the Capacity Building Programme at an allocated value of US\$ 5 million.	Failure to formulate an effective Capacity Building Programme and not implement it in a timely manner.	Steps are being taken to develop a suitable programme for the Project.	Programme should be approved before implemented.