

## **Primary Health Care System Strengthening Project – Component I - 2020**

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The audit of Consolidated financial statements of the Primary Health Care System Strengthening Project – Component I for the year ended 31 December 2020 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 Agreement No.8878-LK dated 23 January 2019 entered into between the Democratic Socialist Republic of Sri Lanka and International Bank for Reconstruction and 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, presently the Ministry of Health is the Executing Agency of the Project and the Ministry of Health in collaboration with Ministry of Provincial Councils, Local Government and Sports, Presently the Ministry of Public Services, Provincial councils and Local Government is the Implementing Agency of the Project. The project is mainly divided into Component 1 and Component 11 and Component- I is implemented at the Central level and Provincial level. The objective of the Project is to increase the utilization and quality of primary health care services with an emphasis on detection and management of non-communicable diseases in high-risk population groups in the selected areas of the country. As per the Loan Agreement, the estimated total cost of the project was US\$ 200 million equivalent to Rs.31,588 million and out of that, US\$ 50.845 million equivalent to Rs.8,030.46 million was allocated for the Component- I of the Project. Total cost of the project was agreed to be financed by International Bank for Reconstruction and Development. The Project had commenced its activities on 23 January 2019 and scheduled to be completed by 31 December 2023.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Project as at 31 December 2020, consolidated expenditures and its consolidated 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 scepticism 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 Accounting Deficiencies

No	Accounting Deficiencies	Amount	Responses of the Management	Auditor's Recommendations
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		Rs.million		
(a)	According to the Treasury Operations Department reports, the Funding Agency had disbursed Rs.9,851 million to the project as at 31 December 2020. Out of that only Rs.4,317 million was release for the component -1. However, Rs. 4,169 million had been disclosed and the remaining Rs. 5,534 million had not been shown in the financial statements. Furthermore, the reasons for the difference of Rs. 231 million between the amount released by the Treasury and the amount received by the project had not been submitted to the audit.	5,534	The observation is accepted and action has already been taken to identify the difference by doing the reconciliation between the records maintained by ERD and Project office.	All funds received for the project should be disclosed in the financial statements.
(b)	According to the reports of the External Resources Department, Front End Fee charged by the Lending Agency in 2019 had not been brought to the financial statements.	88.91	Required steps have already been taken to show in the Financial Statements for the year 2021.	All expenses should be disclosed in the financial statements.
(c)	Documentary evidence to confirm bank balance as at 31December 2020 had not been submitted for audit.	52.28	Agreed with the observation and action will be taken to submit confirmation letters to the Audit as soon as possible.	Confirmation letters should be submitted to auditors directly.
(d)	Detailed schedules for fixed assets and civil works of provincial level had not been submitted for audit.	2,983.38	The province wise schedules will be submitted with consolidated finance statements for the year 2021.	Detailed schedules should be submitted for audit.

## 2.2 Non-Compliance with Laws, Rules and Regulations

No	Reference to the Laws, Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a)	F.R 626 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka	Books and records on the double entry basis should be maintained in order to facilitate the preparation of annual account. However, those requirements of the double entry had not been maintained by provincial and central level of the project.	Actions will be taken to maintain the double entry-based accounting system from the year 2022.	Required to comply with the Financial Regulation.
(b)	The Management Audit Circular No.02/2016 dated 10 June 2016 and the Paragraph 64 of the Project Appraisal Document dated 04 June 2018	A Internal Auditor had not been appointed for the project or transactions of the project had not been audited by the internal audit units of the Ministry of Health and Provincial Councils.	Soon after the approval was obtained, project has taken actions to recruit an Internal Auditor. The new Internal Auditor has started auditing in collaboration with Internal Audit divisions of State Ministry, Provincial Councils and Ministry of Health.	Required to comply with the circular.
(c)	The Asset Management Circular No.01/2017 dated 28 June 2017	The Fixed Assets Register had not been prepared by the provincial offices & project office.	Provincial wise, fixed assets registers are maintained at present and action will be taken to prepare the fixed assets registers for the assets acquired by the institutions under the Ministry of Health too.	Required to comply with the circular.

### 3.1 Physical Performance

No	Audit Issue	Responses of the Management	Auditor's Recommendations
(a)	Out of the 04 Disbursement Link Indicators (DLI) established to measure the progress of the project, the expected physical progress achieved by December 31, 2020 was 40.16 percent. Thus, it was observed that it was difficult to achieve the desired objectives of the project during the project period.	Due to the onset of Covid 19 pandemic, the date of verification for the year 2020 was extended up to 30th June 2021 by which many DLI have been achieved so that the disbursement of funds was successful.	Action should be taken to complete the project as planned.
(b)	Although about 70 percent of the allocation under component 1 of the project had been allocated for the provincial health service, a sum of Rs.94.13 million of the allocation made to the Ministry of Health for the year under review had been spent on provincial health services.	The other activities have taken place in provincial institutions, responsibility of monitoring and regulation lies with Directors, Deputy Director Generals and Additional Secretaries in Ministry of Health. Therefore, they have utilized for the activities to improve quality of services under their preview.	Provincial level and central level activities should be clearly identified and implemented.
(c)	Project funds had not been utilized according to a formal plan to achieving the objectives of the Central level of the project. Instead of that, Rs.217.2 million had been made to various institutions, sectors and individuals in the health sector and money had been spent on their own priorities.	Activities implemented by the Ministry of Health as National Quality Improvement Activities, whether Central or Provincial Institutions, are essentially implemented. Therefore all expenses amounting to Rs. 22,614,681 are related to the intended purpose, as the audit observations are not acceptable.	The financial allocation of the project should be spent according to a specific plan to achieve the desired objectives.

### 3.2 Submission of Financial Statements

----- <b>Audit Issue</b> -----	<b>Responses of the Management</b> -----	<b>Auditor's Recommendations</b> -----
Although the annual financial statements should be submitted for audit within two months of the end of the financial year, the financial statement for the central level of the component 1 and consolidated financial statements of the component 1 for the year 2020 had been submitted for audit on 25 October 2021.	The Financial Statements of the year 2021 will be submitted within the stipulated period.	Financial statements should be submitted on the due date.