

Primary Health Care System Strengthening Project – Component II - 2022

The audit of the financial statements of the Primary Health Care System Strengthening Project – Component II for the Year 31 December 2022, 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 16May 2018 entered in to between the Democratic Socialist Republic of Sri Lanka and the 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

According to the Loan Agreement, the Ministry of Health, 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 Administration, Home Affairs, Provincial Councils and Local Government. The objectives of the Project are 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\$ 15.00 million equivalent to Rs.2,368.27 million had been allocated for the activities to be carried out under Component –II of the Project. However, the allocation for this component had reduced to US\$ 6.00 million during the previous year. The Project had commenced its activities on01 February 2019 and scheduled to be completed by 31 December 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, 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 section of Auditor’s Responsibilities for the Audit of the Financial Statements appeared in 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 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

Accounting Deficiency / Audit Issue	Amount Rs.	Response of the Management	Auditor's Recommendations
As per the Section 43 (a) of Sri Lanka public Sector Accounting Standard 5 assets and liabilities should be translated at the closing foreign exchange rate of the date of the statement of financial position. However, the parity adjustments relating to the foreign loan of the project had not been accounted for the year under review.	106.7 million	According to CS-DRMS Report 814-1(V2) of the Department of Foreign Resources, interest expenses and commitment fees are paid by the Department of Foreign Resources. It is not necessary to get the allocation from the National Budget Department and re-account the expenditure.	Should be followed Sri Lanka Public Sector Accounting Standards and The balances should be tallied.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Financial Regulation No. 753(1) and 753(2) of the Democratic Socialist Republic of Sri Lanka	The Financial Regulation had not been followed for 16 instances of issuing and receiving of goods in the project.	Out of the 16 issue orders had to be received; five receipts orders have been received by the project office. The heads of the organizations which yet to send the receipt orders for balance 12 nos. issue orders were informed to send the receipt orders as soon as possible.	Should be complied with the Financial Regulation.

3. Physical Performance
3.1 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
<p>The offer for supply, installation, operation and maintenance of 600 digital signage systems of Rs. 77 million (excluding tax) for primary health care centers was awarded on 07 may 2021. The final payment of Rs. 17 million had been paid during the year under review. However it was revealed that 285 of these 600 digital signage systems are not in proper working condition by the date of the audit on 22 May 2023.</p>	<p>Actions will be taken in the near future to connect the balance 285 numbers of digital signage systems to the central transmission system by the Director, Health Education. For this purpose, an operational committee has been put up with district officers to maintain a close monitoring of the functioning of the Digital signage System.</p>	<p>It should be repaired and used immediately.</p>

3.2 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	<p>Rs. 2.6 million had been paid to the London School for 05 officers who participated in the course called "LSE Public Policy Analysis" held online for 10 weeks from February 09 of the year under review. No evidence was submitted to the audit on the basis on which this institution was selected for this course.</p>	<p>Certificates issued by the London School after the successful completion of the programme. Based on the request made by the Director General of Health Services, Deputy Director General of Management Development and Planning, Director Policy Analysis and the officers of the same unit were nominated for the programme.</p>	<p>Selected criteria and other written evidence should be submitted for audit</p>
(b)	<p>A Laptop computer valued at Rs.178,000 was lost on 07 August of the year under review. The actions had not been taken against relevant officers according to the Financial Regulation No 104 (3) and 104 (4).</p>	<p>The initial report of this has been submitted to the Ministry Secretary on 26.09.2022. As per F.R. 104(4) a panel has been appointed on 10.01.2022 and inquiry has already started is The progress of the inquiry will be notified to the Auditor General.</p>	<p>Should be complied with the Financial Regulation.</p>

- (c) The Senior Communication Officer of the Primary Health Care System Empowerment Project had been paid Rs.453,337.37 more than the salary due by the project. Although it was stated that the secretary of the Ministry of Health had informed that the overpaid salary should be collected in installments, such a letter had not been submitted to the audit. Furthermore, since this project will end on 31 December 2023, it is stated that the overpaid salary should be charged before then and how this overpaid salary was done had not been submitted to the audit.
- The instalment basis of the recovery of over paid salaries made to Senior Communication Officer was decided by the Health Secretary based on the recommendation of the project office. However, actions have already been taken to issue formal letters to Chief Finance Officer of the Ministry of Health, Project Director, and the officer by the Secretary Ministry of Health advising the recovery.
- The overpaid salary should be recovered before the completion of the project and disciplinary action should be taken against the responsible persons in this regard.