

Primary Health Care System Strengthening Project – Component 1 - 2022

The audit of consolidated financial statements of the Primary Health Care System Strengthening Project – Component 1 Project for the year ended 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 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

According to the Loan Agreement, then the Ministry of Health, Nutrition and Indigenous Medicine, presently the Ministry of Health is the Executing Agency and the Ministry of Health in collaboration with then Ministry of Provincial Councils, Local Government and Sports, presently the Ministry of Public Administration, Home Affairs, 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 1 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 Rs31,588 million and out of that US\$ 50.84 million equivalent to Rs. 8,030.46 million was allocated for the Component 1 (Central Level) 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

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 2022, 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

My opinion is qualified on the matters described in Table 2.1 of this report. 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 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

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 Deficiency / Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
a.	A difference of Rs 12 million was observed between the balance of Rs.7 million as general deposit shown in the consolidated statement of financial position as at 31 December 2022 of and the balance of Rs. 19 million in the general deposit account submitted for the audit.	12	Kindly inform you that the general deposit balance of Rs. 7,256,423 in the financial statement as at 31.12.2022 is correct. The recording of balance according to the general deposit account submitted for audit as Rs. 19,363,575 is not corrected and I kindly inform you that the document will be checked and the balance will be corrected as Rs. 7,256,423 as at 31.12.2022.	Financial statements should be prepared correctly.
b.	An advance of Rs. 26 million had been made to a supplier on the procurement of two Lorries with cooling facilities for the distribution of medicines and later on the advance amount had been returned by the supplier due to failure of supply lorries. However, due to erroneous accounting, the advance amount had been accounted as motor vehicles instead of advance and the amount returned had been accounted as revenue instead being recorded as settlement of advance. As a result, revenue and motor vehicle balances had been overstated.	26	Purchase order for 02 nos. 14 ft. Cargo Lorries (cooler) had been issued to SATHOSA MOTORS PLC on October 2021. The Controller, Imports & Exports had requested to forwarded 3 documents to confirm details. Those documents were submitted .to the Controller Imports & Exports , After arrival of the lorries to the Sri Lankan Port , the company issued the Performa Invoices. Due to imposing strict controls by the Government on importing vehicles, the company faced difficulties to get clearance and to get release the vehicles from the port & custom. There were utmost efforts taken by the Min. of Health and the Min. of PC& LG to get release. Covid-19 vaccines and other vaccines needed to be transported through these cooler lorries at that time. After considering all the above facts decided to write the check for 2 lorries for Rs. 25.9 million and close the accounts for the year 2021, and accounted the amount to PSSP final Account. If the check was not written the allocated funds will be abolished and returned to Govt. Revenue.	Financial Statement should be prepared correctly.

- c. Rs. 270 million had been spent from 01 January 2019 to 31 December 2022, on the construction of other Hospitals, Primary Medical Centers, and the Office of the Medical Officer of Health and other construction activities outside the list of hospitals to be developed from the allocation made for the development of primary hospitals in the Central Province of which represent 43 percent of the total allocation on construction projects.
- 270 According to the report of Progress Review meeting of Primary Health System Strengthening Project held by the State Ministry of Provincial Council and Local Government on 27 December 2021. It should be developed other Primary health care Institutions in addition to the identified Primary Health care Institutions, by the Primary Health System Strengthening Project
- Action should be taken to utilized allocation as per loan agreement.
- According to the construction had done based on their necessity and priority.

3. Physical Performance

3.1 Physical progress of the activities of the Project

(a)Component	Activity	As at 31 December 2022		Audit Issue	Reasons
		Expected physical performance percentage	Performance achieved percentage		
01	infrastructure Development	100.0	54.0	Although Rs. 250 million had been allocated for infrastructure developing and strengthening provision of plant machinery and equipment however only Rs. 114.4 million had been spent.	Transferred under FR 66

Response of the Management Even though Rs. 250 million had been allocated for the purchase of plant machinery and equipment, during the year 2022 Rs. 89.05 was transferred under FR 66 to other two object codes, therefore, the net allocation was Rs. 160.5 million and the net expenditure as at 31/12/2022 was Rs. 114.37 million. Accordingly, the percentage of the net expenditure against the net allocation was 71 percent. As per the economic crisis of the year 2022 the price levels off all goods and services increased unexpectedly and therefore, some of the planned procurements were cancelled and as a result the said saving occurred.

Auditor's Recommendations The expected objectives should be achieved by implementing development infrastructure activities.

3.2 Confirmation of Balances

Ledger Account	No . of Balances/ Ledger A/Cs	Amount as at December 2022	as per As per	at 31 December 2022	Description of the corresponding records	Difference	Management Response	Auditor's Recommendation
		Rs. million	Rs.	Rs.		Rs		
Cash at Bank	09	91	-	-	Confirmation Letters	-	Transactions are made through the Provincial Council's common bank account, hence it is not possible to get a separate balance confirmation from the bank for that amount.	Confirmation letters should be submitted to auditors directly.

3.3 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
a)	According to the Project Appraisal Document, the objective of the project is to increase the utilization and quality of primary health services in selected areas of the country. However, it was revealed during a sample audit that the project had spent an amount of Rs. 2 million on 06 occasions for various tasks, which were not for achieving the actual objective, and a formal approval had not been submitted for the audit.	The Project Development Objective is for reorganization of primary medical services of which the set targets have to be achieved for Disbursement purposes. World bank releases Allocated number of US Dollar once the project confirms the Achievement of DLIS However, according to the Financial Agreement of Sri Lanka has the decision-making power for investment of said disbursed funds quoted activities 1,2,3,4 was essential for the ministry of health and funds were available in the PSSP accounts, there for secretary health has approved the Expenditure Activity 5 and 6 belongs to the object code 2509 other expenditure (Progress Review Meeting).	Only activities that are consistent with the objectives of the project should be done..

b) Rs. 68.2 million had been paid as trainee allowances for family health care students in December 2022. It was observed during the audit that the activity was not included in the action plan at to the project for the year under review, only Rs. 5 million had been allocated for staff training. Due to this payment, the cost for staff training was Rs. 74.4 million. Accordingly, it was observed that Rs.69.4 million has been spent in excess of the allocation.

At the time of preparation of the annual action plan at the beginning of the year this activity was not available nor identified. Nevertheless, in the third quarter of the year 2022, 1000 family healthcare students were recruited as an essential activity and since the necessary financial allocations were not available in the budget 2022, based on the approval of the Secretary Health, the said payments were made under component.

Only expenses consistent with the objectives of the project should be incurred.

c) Rs. 5.3 million had been spent for digitalization of Outdoor Patient Department of Lady Ridgeway Hospital for the “Smart OPD” program Barcode printer 10, Label Printer 02, Dell Chrome Book 29, Desktop 06, Barcode Reader 14. The following defects were observed during the inspection.

i. The audit revealed that HHIMS (Hospital Health Information Management System) was already in operation with the primary objective of digitalizing the Outdoor Patient Department of Lady Ridgeway Hospital. The objective was to establish an Electronic Medical Record system to increase the quality and efficiency of the services provided. Accordingly, the necessity for the project to digitize the Out Patient Department of Lady Ridgeway Hospital while such a system was in place was not evident during the audit.

In the Lady Ridgeway Hospital only a que management system was functioning in order to register the outdoor patients. In the past no electronic medical record system was functioning in the registration of outdoor patients. However, in the hospital the electronic medical record system was functioning for the wards, ICU, emergency treatment unit as the HHIMS system.

It should be improved current system before implementing a new system.

29 Chrome Books were purchased from Singer Sri Lanka at a cost of Rs.3 million for the digitization of this Outdoor Patient Department and formal data to verify that the

In the evaluation report the Technical Evaluation Committee had recommended to procure 29 Nos. Chrome Books computers from Singer Sri Lanka. In the evaluation the TEC considered the minimum price without

Need to comply with specifications.

item conforms to the specification was not included in the evaluation summary. Although it was stated that this item required a warranty period of 03 years, but there was a one year warranty period. Accordingly, it was not ascertained in the audit whether the item was purchased in accordance with the prepared specification.

considering the warranty period and to obtain a maximum cash benefit to the government the decision has been taken. However, it is accepted that the procedure arrived in decision has violated the said guideline, it was noted to inform the relevant officers to adhere the guidelines in the future.

- d) E-Health Network of Ratnapura Teaching Hospital, A provision of Rs. 25 million had been allocated and Rs. 12.4 million had been paid under the Primary Health Systems Strengthening Project According to Ratnapura Teaching Hospital Director's letter addressed to the Deputy Director General (Planning), an estimate was obtained from Sri Lanka Telecom to complete the network system in operation for the OPD of the hospital and to connect the Clinic under 03 phases at a cost of Rs.3.14 million for one phase. Ignoring that estimate, the project and the Ministry had already paid Rs. 24.7 million for this work, however it was observed that all the clinics of the hospital were not completely covered.
- An estimate had been obtained from Sri Lanka Telecom to network the outdoor patient department. However, it was decided to network the entire hospital using the funds available. Accordingly, all the clinics are networked at the moment and functioning smoothly
- Should be selected most suitable opportunity.
- e) Rs. 28.3 million had been spent for the Design, Supply and installation of the E-Health network system and Rs. 51 million was also paid for the "SWASTHA" system by the same project. It was observed that Rs. 79.3 million had been spent to the same activities covered by the "SWASTHA" and the E-Health network system.
- Under "SWASTHA" project only drugs stores and pharmacy are connected to the system, but under "E Health Network" system the data of OPD, clinics and wards are net worked. However, under both systems "SWASTHA and HHIMS" could be entered.
- Should be identified most suitable of the requirement.

- | | | | |
|----|--|----------------------------|--|
| f) | Rs. 540.3 million had been spent by the Central province for various activities. However Procurement files, Good receive notes, Good issuing notes, cash book, confirmation letters and construction procurement files were not submitted for Audit. | No comments have been made | The relevant evidence should be submitted to the audit to confirm the values for each transaction. |
| g) | Out of the Impress aggregating to Rs. 88.33 million as per the opening balance and Rs. 4,785 million released by the General Treasury for the Provincial Health Ministries only a sum Rs.4,782.43 million had been utilized by the respective provincial Ministries as at 31 December 2022. The unspent money aggregating Rs.90.89 million had been retained in a provincial fund account maintained by provincial councils. | Not commented | Funds should be used for the intended purposes the project during the year under review. |

3.4 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
<p>Dates related to cash deposits of Rs. 24.8 million and cash payments of Rs. 17.7 million in the general deposit account submitted by the Chief Ministry were not recorded in accounting of the allocations and expenses received for the Primary Health Service System Empowerment Project (PSSP) in the Southern Province and the information related to those receives and payments was not entered into the cash book.</p>	<p>As the Primary Health services Empowerment project is a budget support project, the Southern Provincial Chief Ministry and the Provincial Health Services Department have worked under the allocations provided by the Provincial Treasury through the annual financial statement and the same institution is maintained in accordance with the Cigas programme with the help of the equivalent. The information indicated by the audit observations has been recorded in these ledgers, and I kindly inform you that the values not entered in the cash book submitted to the auditor related to receipts and payments will be corrected.</p>	<p>Need to comply with the requirements stipulated in the Financial regulations</p>