

Primary Health Care System Strengthening Project – Component II - 2023

The audit of the financial statements of the Primary Health Care System Strengthening Project – Component II for the Year 31 December 2023, 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 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 2023, 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 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
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka FR No. 371(b)	Although the interim advances should be settled immediately after the completion of the assigned tasks, in the year under review, however advance of Rs. 66,200 given on 03 occasions, had delays to settle ranging from 39 days to 44 days.	Accepted. Relevant Officials have been instructed to pay more attention on this matter.	Should be followed Financial Regulation.
(b) According to Section 2.12 (a) of the Procurement Guidelines	All the members of the procurement committees and technical evaluation committees should pledge at the first meeting of said committees, to respect commercial confidentiality, their impartiality and honesty and that they have no personal relationships with suppliers. However there is no evidence to prove this promise was given in the purchase of 04 types of medicines worth of Rs. 18.6 million.	Accepted. Though this act is compulsory to ensure that the technical evaluations are unbiased, unfortunately this has been missing due to error of omission.	Should be followed Procurement Guidelines
(c) Section 9.3 of Management Circular No. 01/2019 dated 05 March 2019	As per the Circular, the Project Steering Committee should meet at least once in two months; however it had met only on 15 August 2023 in the year under review.	As this particular project is involved in more than one ministry and 9 provincial ministries, during the negotiations the nature of steering was discussed. Thereafter, it was published in the project appraisal document that the National Steering Committee should meet at least twice a year.	Should be complied with the Circular instruction.

3. Physical Performance
3.1 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
	<p>The project has to pay Rs.120 per kilometer for the vehicle that was taken on a rental basis up to a maximum of 2000 km per month, and Rs.115 per kilometer for an additional kilometer each had agreed to pay. However in the year under review, Rs. 1,161,370 was paid for additional 10,102 kilometers without considering the running chart of the vehicle.</p>	<p>A transport facility has been procured on a contract basis by the project office. As the number of hospitals to be monitored increased with the expansion of the project, the transport requirements of the officers were increased. As shown in the draft audit report it is really an error on our part not to record milometer figures in the log notes. However, after completing a daily transport activity, the distance written for it in the log is mentioned in kilometers. Finally, the last officer to leave the vehicle checks the log note,</p>	<p>The correctness of payments should be verified.</p>

3.2 Procurement Plan
Audit Issue

Audit Issue	Response of the Management	Auditor's Recommendation
<p>According to the procurement plan, procurement of 06 types of medicines value at USD 182,100 had been made after a delay of 02 months to 04 months.</p>	<p>During the period concerned, it was the world bank officials who visited Primary medical care institutions instructed through its AID MEMORI (Mission report) to provide essential and necessary drugs to ensure the availability at primary care level. Accordingly, the PMU coordinated with medical Supplies Division to obtain information with regard to procurements. However, due to the unexpected circumstances that affected the MSD had a critical impact on performing these procurements in time. Obtaining real time information and recommendations are delayed frequently.</p>	<p>Purchases should be made according to the procurement plan and urgent purchases should be minimized.</p>