

Primary Health Care System Strengthening Project – Component 1 - For the period from 01 January 2024 to 30 September 2024

The audit of consolidated financial statements of the Primary Health Care System Strengthening Project – Component 1 for the period from 1 January 2024 to 30 September 2024 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 16 May 2018 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 and Mass Media 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, 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 Rs. 31,588 million. 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. However, the date of completion of the activities of the Project had been extended up to 30 September 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 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 30 September 2024, statement of consolidated expenditure and its consolidated cash flows for the period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Qualified 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 Qualified 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

Accounting Deficiency /Audit Issue	Amount Rs. Million	Response of the Management	Auditor's Recommendations
A difference had been observed between the amount received from the Treasury as per the financial statements (Rs. 30,474 million) and the actual amount released by the Treasury (Rs.30,706 million) for the Component I.	232	Clarification and confirmation of the required information have been requested from the Department of Treasury Operations and the final answer in this regard will be submitted upon receiving this confirmation.	Difference should be reconciled.

2.2 Non-Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Audit Issue	Management Response	Auditor's Recommendation
(a) Paragraph 9.3 of the Management Services Circular No. 1/2019 dated 05 March 2019	Although the National Steering Committee meeting was supposed to be held once in 02 months, only one meeting had been held during the period under review.	Considering the complex nature of duties of implementing officers all over the island, the Project Appraisal Document has permitted to conduct national steering committee at least biannually.	Circular instructions should be followed.
(b) Paragraph 2.14.1 of the Procurement Guidelines	Items valued at Rs.17.27 million had been procured by using PSSP project funds without following bidding procedures in Northern Province.	Subsequently, the Deputy Chief Secretary (Finance) of the Northern Province has issued instructions to all procurement authorities in the province to ensure strict adherence to procurement guidelines.	Disciplinary action should be taken against the responsible officers.
(c) Section 52 of the Pradeshiya Sabhas Act No. 15 of 1987	All the buildings constructed under the PSSP project are located in the areas under the jurisdiction of the Pradeshiya	Construction of staff quarters for certain hospitals in Kilinochchi district was very	Adhere to the provisions of the Act.

Sabhas in Northern Province. necessary during Under Section 2 of the Housing Covid19 pandemic and Urban Development period. However, Ordinance, any permanent covering approval will construction work on cement be taken from respective should be carried out with the local authorities. the permission of the Chairman. However, a sum of Rs.238.91 million had been spent for construction of buildings without proper approval of the Pradeshiya Sabha.

3. Physical Performance

3.1 Observations made on site visits

Audit Issue	Management Response	Auditor's Recommendations
(a) Even though the equipment relating to network of hospitals had been provided in the year 2020, action had not been taken to carry out network of hospitals even by 22 March 2024. Moreover, information relating to network distributed to all provincial hospitals in Uva Provincial Council except for the Bandarawela District Hospital, had not been made available to Audit.	At the commencement of the PHSSP project, there were plans to introduce an electronic patient database system. To facilitate this, networking of primary care units at 14 Regional Hospitals was completed under the guidance of PHSSP. The Swastha system was introduced by PHSSP currently, it is being used only for drug management. Necessary steps have been taken to utilize the already established hospital networks.	Project fund should be utilized effectively.
(b) During the sample audit test in hospitals and primary healthcare units of the Kegalle District, registration of patients could not be accurately and efficiently carried out due to matters such as lack of internet facilities and the inadequacy and low speed of internet.	As these institutions are located in very remote areas, signal frequency is extremely low. Actions are being taken to engage with other internet service providers.	Internet facilities should be provided.
(c) A laboratory building constructed at a cost of Rs. 5.26 million for Palai Divisional	The laboratory will be utilized for its intended purpose once a	The necessary equipment and

Hospital in the year 2021 had been used as a doctor's quarters for more than 02 years instated of intended purpose due to vacant of medical laboratory technologist and poor supply of laboratory equipment. However, officer's quarters built in Iththavil at a cost of Rs. 32 million in 2021 had not been utilized up to 2025.

Medical Technologist (MLT) is appointed to the hospital.

Laboratory human resource should be provided for the laboratory building to utilize it and the quarters should be used for its intended purpose.

3.2 Idle/ Unutilized/ Underutilized Resources

Audit Issues	Responses of the Management	Auditor's Recommendations
According to the sample audit conducted, it was observed that the assets of Rs. 11 million provided under the financial allocation of the project (provincial level) have been underutilized for a period of 1 to 6 years in the Uva, Northern and Southern provinces and the Sandalankawa Regional Hospital.	Action will be taken to utilize the Rs.11 million worth of assets.	Idle assets should be used for intended purposes.

3.3 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The following matters were observed in the audit conducted regarding the utilization of 10 nos of Automated Immunoassay/ Hormone analyzer (Mindray Clia 2000i) devices purchased by the Ministry of Health in the year 2023 at a cost of Rs. 34.2 million.		
i. These devices were handed over to the hospitals from 16 December 2022 to 28 June 2023. However, it was observed that there was a significant delay in conducting tests by using these devices by the relevant hospitals and underutilization of them until 23 January 2025. In this situation, Rs. 34.2 million incurred on 04 devices had become uneconomical	During the planning stage of this procurement, it seems that provincial administration and experts at provincial level had not been involved to analyze the needs as well as to evaluate the capacity of receiving institutions.	Action should be taken to evaluate capacity of the devices.

- | | | | |
|-----|---|--|---|
| ii. | Although 49 types of tests could be done by using the above mentioned equipment but only 8 types of tests had been done by the hospitals. | During the planning stage of this procurement, it seems that provincial administration and experts at provincial level had not been involved to analyze the needs as well as to evaluate the capacity of receiving institutions. | Action should be taken to evaluate capacity of the devices at the beginning of procurement. |
| (b) | The details had not been given to the audit whether the construction works had been completed or utilized for intend purposes in respect of civil work worth Rs. 219 million and also no evidence had been made those constructions are accounted under the Ministry or related institutions. | Action has been taken to collect information about the rest of constructions and renovations. | This information should be submitted to the audit without delay. |
| (c) | Only Rs. 1,094.06 million out of the non-financial assets value of Rs. 1,978.39 million were accounted under non-financial assets. Also, information on the Issue and receipt orders related to unrecorded assets was not submitted to the audit. | Action will be taken to complete this task under the supervision of the Chief Financial Officers. | This information should be submitted to the audit without delay. |

3.4 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
(a) Following observation had been made when examine the 6 Capabilities under DLI 3.2 during the sample audit.		
i. No public health nursing officer had been attached to 08 out of 10 Primary Medical Care Units (PMCU) and there had not been attached nursing officer to 04 units. Further only one medical officer had been attached to 07 units in the Western province.	Requests have been submitted to the Department of Management Services to revise the cadres for Medical Officers and Nurses in all provinces.	Necessary staff should be assigned as per the DLI.
ii. The required nursing officers had not been appointed for the 17 Divisional Hospitals in Jaffna District	Comments had not been given	Necessary staff should be assigned as per the DLI.

- | | | |
|--|--|---|
| iii. 13 types of medical equipment had not been available in the hospitals belonging to the Kurunegala and Puttalam Districts and in 23 PMCUs. | Medical equipment has been provided to the hospital selected under PHSSP. Action has been taken to identify the requirement of medical equipment of the other hospitals for providing of required equipment. | Minimum requirement should be ensured as per the DLI. |
| iv. Although Essential drugs for non-communicable diseases should be at a minimum level, but 15 to 19 types of drugs were unavailable in the dispensaries and drug stores at Hatthotaamuna, Nalanda, Madipola and Yatawatta regional hospitals as at the audit date of 10 April 2024 | There was a shortage of drugs and due to economic situation prevailed in the country during 2022 – 2023. However, alternative drugs were used during that period to address the issue. | Minimum requirement should be ensured as per the DLI. |
| v. Although Glucometers and Cholesterol meters provided to the Primary Health Care Units, cholesterol strips had not provided to any Primary Health Care Unit whatsoever in the Kalutara District. | In Kalutara district, laboratory support for Risk factor surveillance is done mainly not through strip methods. | Minimum requirement should be ensured as per the DLI. |
| vi. All the samples collected for cervical cancer tests by the 13 offices of District Regional Medical Offices of Health (MOH) in Matale are forwarded to the laboratory in Matale General Hospital due to the shortage of Medical Laboratory Technicians (MLT). | To improve the coverage and quality of diagnosis, HPV DNA was introduced but due to the restrictions prevailed following economic crisis these new methodologies could not function as planned. | Minimum requirement should be ensured as per the DLI. |
| (b) According to the DLI 4.0 PMCIs provide enhanced patient friendly service such as PMCI with an operational appointment system and the patients care register for a specific appointment time. Following observation had been made during the sample audit. | | |
| i. In order to fulfil above enhanced service, no infrastructure development had been done under this project implementation units in Northern province. | It was not possible to implement the HIMS information system across all units due to the shortage of staff with the necessary technical skills at various levels. | The necessary infrastructure should be provided |

- | | | | |
|------|---|---|---------------------------------------|
| ii. | The network system had not been implemented in the 18 institutions supplying primary healthcare services. | As these institutions are in very remote areas, signal frequency is extremely low. Consequently, it is very difficult to obtain even minimum internet connection. | Network system should be implemented |
| iii. | The Office of the Medical Officer of Health – Kalutara had been held only the day clinic as in other health institutions even night clinics, evening clinics and weekend clinics should be held in addition to day clinics on week days for attracting working community towards Primary Medical Care units as the Suwadiwi clinics held in Primary Medical Care units. | Night clinics require additional human resources and transport facilities, which increase operational costs. Nevertheless, conducting night clinics is not mandatory. | Action should be taken to achieve DLI |

(c) According to the DLI 6 following observation had been made during the sample audit.

During the period from the year 2019 to June 2024 in the progress of registration of persons of 25 health institutions out of 35 health institutions carrying out the HIMS Project in the Kandy District, had been remained below 60 per cent.	Considering the difficulties faced by hospitals in many remote districts, it was agreed to consider the national target achievement provided all verifiable hospitals have commenced the population screening.	The system should be implemented to achieve DLI.
--	--	--

(d) According to the DLI 8.0 following observation had been made.

The percentage of the cervical examination of the total population aged 35 years in the Regional Director of Health Service Anuradhapura area for the period 2019 to 2021 was in the range of 48 – 70. However the percentage of progress in carrying out this examination by the year 2022 was 50.	Inadequate knowledge about cervical cancer, its risk factors, and the purpose and benefits of screening, combined with socio-cultural and psychological factors, embarrassment, pregnancy, childbirth, and time management issues, have limited the uptake of cervical cancer screening among the target group.	Cervical cancer screening should be increased as per the DLI.
---	---	---