

Primary Health Care System Strengthening Project -Phase I- 2019

The audit of financial statements of the Component I of the Primary Health Care System Strengthening Project for the first accounting period from 23 January 2019 to 31 December 2019 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 the International Bank for Reconstruction and Development.

1.2 Implementation, Objectives, Funding and Duration of the Project

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, Local Government is the Implementing Agency of the Project. The Project is mainly divided into two component and component I is implemented at the Central Level and Provincial Level. The objectives of the Project are 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\$ 185 million equivalent to Rs.29,218 million was allocated for the Component I of the Project. The 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 3 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 2019 and its cash flows for the period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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 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 skepticism 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 Non- Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendations
(a)	Management Service Circular No.1/2019 Dated 15 March 2019			
	(i) Paragraph 2.3.3	The Deputy Project Director had been recruited without considering the minimum qualifications required.	Appointment had been done by Secretary of Ministry of Provincial Council and Local Government based on approved cadre of the project.	Need to comply with the requirement stipulated in the circular.
	(ii) Paragraph 9.3	The required Project Steering Committee meetings had not been held during the year under review.	Not Commented.	The meetings of the Project Steering committee are required to be held regularly.
(b)	Paragraph 64 of the Project Appraisal Document dated 04 June 2018.	Internal audit was not carried out over the project activities during the period under review.	Not commented.	Action should be taken to carry out Internal Audit.
(c)	Presidential Secretariat Circular No. SP/SB/07/15 Dated 25 September 2015	Contrary to the circular provisions, private sector institutions had been selected to facilitate to conduct training programs and workshops and a sum of Rs.3.8 million had been spent.	Not Commented.	Need to comply with the circular.

3. Physical Performance

3.1 Physical progress of the activities of the Project

	Activity	As at 31 December 2019		Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Units	Units		
(a)	Number of patient friendly services provided on the basis of 4 types of services at the Primary Medical Care Institutions.	50	Nil	Annual Disbursement Link Indicator 4 (DLI - 4) targets had not been achieved at province level.	No reasons were given for the delay.
(b)	Number of Primary Health Care Institutions that use personal health records to coordinate patient care over time and through the referral chain.	50	Nil	Annual Disbursement Link Indicator 5 (DLI - 5) targets had not been achieved at province level.	-Do-
(c)	Number of Primary Health Care Institutions connected to and using the Medical Supplies Management Information System.	50	Nil	Annual Disbursement Link Indicator 6 (DLI - 6) targets had not been achieved at province level	-Do-

Response of the Management Not Commented.

Auditor's Recommendation Prompt actions should be taken to achieve annual Disbursement Link Indicator targets.

3.2 Observations made on site visits

No	Related DLI	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	DLI-5	Although electronic data system should be used to record patient information, it was observed during the sample audit that only patient registration information had been recorded electronically in a Personal Computer.	Not Commented	Electronic data system should be introduced immediately.
(b)	DLI-9	Cholesterol strips and glucose strips were not enough for cholesterol and glucose check at Katugasthota and Watawala hospitals in Central Province.	Not Commented	Action should be taken to supply necessary.
(c)	DLI-3	Adequate number of trained medical officers and public health nursing officers had not been attached to Sadalankawa, Gokarella, Dankotuwa and Madampe hospitals in North Western Province and Kadugannawa, Katugasthota, Nalanda, Watawala hospitals in Central Province.	Not Commented	Action should be taken to assigned adequate staff.
(d)	DLI-4	It was observed that there were not laboratory facilities for test of Serum creatinine and test of Lipid Profile in Kadugannawa hospital and Watawala hospital and they had not also taken any action to get these facilities from any other public hospital or private laboratories.	Not Commented	Action should be taken to supply laboratory services as agreed

3.3 Payments made out of the Project objectives

Audit Issues	Responses of the Management	Auditor's Recommendations
(a) The main 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 selected areas of the country. However, contrary to the above objective, the project had spent Rs.1.2 million to print and copy to CDs of annual performance report of the Ministry of Health for the years 2015 and 2016.	Not commented	Action should be taken to utilized allocation as per the project objectives.
(b) According to the loan agreement, training capacity building plans should be implemented under the component 02. However, a sum of Rs.34.50 million had been spent for training capacity building under component 01 by Southern, North Central and Eastern Provinces.	Not Commented	Action should be taken to utilized allocation as per loan agreement.

3.4 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
According to the reports of the Department of External Resources, total distributions for the entire project comprising components I and II was Rs.4,488.22 million during the period under review. However, according to the financial statement of the project, the disbursements for the period under review was Rs.1,717.80 million. The reasons for the difference of Rs.2,770.42 million had not been reconciled.	The disbursement procedure, the World bank has disbursed and amount equivalent to a sum of Rs.4,463 million to the General Treasury, based on the achievement of relevant DLI'S for the audited financial Year 2019. However, Department of National Budget has allocated only Rs.2,258 million for both ministry of provincial Council, Local Government, and ministry of Health.	Proper funds recording system should be maintained.

3.5 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
The Project had not maintained proper accounting records to show the expenditure of the project. Instead of that, prepared memorandum Accounts based on the vouchers collected from different divisions in Health Sector by using excel sheets.	Not Commented.	Proper transaction recording system should be established and maintained.