

Health and Medical Service Improvement Project - 2021

The audit of financial statements of the Health and Medical Service Improvement Project for the year ended 31 December 2021 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 section 12 of Annex 11 of Minutes of Discussions held on 30 November 2017 between the Democratic Socialist Republic of Sri Lanka and Japan International Cooperation Agency. 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, Nutrition and Indigenous Medicine presently Ministry of Health is the Executing Agency and the Project Management Unit is the Implementing Agency of the Project. The objectives of the Project is to improve the medical service for the diagnosis and treatment of non – communicable diseases, especially cardiovascular diseases, by improving the medical facilities and equipment in tertiary care hospitals and related facilities, thereby contributing to enhancing the health of the people of the project area. As per the Loan Agreement and Minutes of Discussions, the estimated total cost of the Project was Japanese Yen 11,352 million equivalent to Rs 16,559 million . Out of that Japanese Yen 10,639 million equivalent to Rs 15,519 million was agreed to be financed by the Japan International Cooperation Agency. The balance amount of Rs.1,040 million is expected to be financed by the government of Sri Lanka. The Project had commenced its activities on 20 October 2018 and scheduled to be completed by 20 October 2025

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 2021, statement of expenditure and its cash flows for the year than 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 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
The Japanese Corporation Agency credit balance as at 31 December 2021 had not been translated into LKR value of that date and as a result the loan balance and development expenditure balance shown in the statement of financial position had been understated.	-	<p>Under the guidance of JICA short-listed consulting firms, we invited tenders and open evaluation with the JICA guideline and document procedure and selected one Japanese consultancy firm.</p> <p>So both parties signed the consultancy agreement in the year 2020. As a result of the Covid epidemic situation, the consultancy started work middle of 2020.</p> <p>Though the loan agreement was signed in 2018, the consultancy agreement was signed in 2020. As in the audit query, in 2018, one yen = Rupees 1.4699, and in the middle of 2020, one yen = Rupees 1.722. The rupee value was going down by day by day. The exchange rate vs course of effect cannot be disclosed in the financial statement due to space limitations, and in yen payment (90%), the exchange rate is not useful much for loan management. Loan management is done by the Department of External Resources. We do rupee conversion only for preparing accounts and vote ledger management.</p>	Parity Adjustment should be disclosed in financial statement.

2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	paragraph 12 of Annex ii of the discussion note	Related to the discussion between the Secretary of the Ministry of Health and the Japanese International Corporation Agency on 30 November 2017, it was stated that the financial audit of the project should be done by the Ministry of Health. However it was observed that no such internal audit has been conducted.	<p>Internal Audit is done by Ministry of Health. Please follow the undermentioned documents.</p> <p>² Letter dated 26 September 2022 of Director, Internal Audit</p> <ul style="list-style-type: none"> • Letter dated 12 October 2022 of Director Internal Audit and meeting notes • Letter dated 30 January 2023 of Project Director 	Action should be taken to follow regulation
(b)	Financial Regulation No. 756	Although appoint of the Annual Board of Survey should be done on or before 15 December of every year, however the Board had not been appoint to verify Rs. 5 million of inventory items.	<p>The following documents are submitted for your reference.</p> <ul style="list-style-type: none"> • Letter of the Project Director dated 12 January 2021, 22 February 2022, 22 August 2022 • Letter of instructions issued by the Accountant (Supplies) of the Ministry of Health dated 07 July 2020 • Letter of instructions issued by Chief Finance Officer II =of the Ministry of Health dated 08 April 2022. <p>Unfortunately, the survey team has not arrived for the Annual Board of Survey.</p>	Need to comply with the requirement stipulated in the financial Regulation

3. Physical Performance

3.1 Physical progress of the activities of the Project

(a)

Component	Activity	As at 31 December 2021		Audit Issue	Reasons for delays
		Expected physical performance percentage	Performance achieved percentage		
N/A	Construction of the 10 storied building for the Badulla Provincial General Hospital	100	Nil	Based on the provisions of the Ministry of Health, the construction of the 10 storied building of the Badulla Provincial General Hospital was awarded to the State Engineering Corporation in 2018 and was scheduled to be completed in April 2021. However the construction had not been completed by March 2023. Although decided to supply and installation Rs. 1,271 million of equipment however it had not been implemented due to the failure of the above construction.	Lack of Provision

Response of the Management Ten storied building at Provincial General Badulla is constructed with GOSL funds and by the Ministry of Health. The Health and Medical Service Improvement Project is not responsible for this construction delay. Anyway Project Management Unit coordinated with the Ministry of Health, Central Engineering Consultancy Burea and Ministry of Finance to improve the progress of the Badulla construction

Auditor’s Recommendations Action should be taken to achieve the desired progress.

(b)

Component	Activity	As at 31 December 2021		Audit Issue	Reasons for delays
		Expected physical performance percentage	Performance achieved percentage		
N/A	Government allocation	19.2	9.9	Although The government's contribution to the project was Rs 790 million however only Rs.78.4 million was used from 2019 to 2021.	Lack of government budgetary allocation
Response of the Management	the	Work is done according to the amount of money the Project receives, not by the allocations that appear in government budget documents. Accordingly, the usage of the received portion is listed below.			
		<ul style="list-style-type: none">• 2019 = 95.9 %• 2020 = 97.1 %• 2021 = 97.8 %• 2022 = 98.1 %			
Auditor's Recommendations		Action should be taken to achieve the desired progress.			

3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Construction of Trincomalee District Hospital, Kandy ,Kurunegala, Anuradhapura Teaching hospitals and supply and installation equipment for Colombo, Kalutara, Peradeniya MLT training schools as well as Bio Medical Division are to be implemented as per the Action Plan of 2019, however atleast tenders were not called up to date of audit.	<p>Project Action Plan had been prepared before the approval of the Loan. JICA approved the Loan on 19 October 2018. Project Management Unit was established on 01 January 2019. The Project Implementation Time Table was altered due to a five-month delay in Attorney General Department and the worldwide COVID-19 epidemic.</p> <ul style="list-style-type: none">• All the documents (detailed plans and Tender documents) related to Packages 1, 2, and 3 have been submitted to JICA for concurrence on 17 June 2022.• The contract agreement was signed between the Ministry of Health and SIRIUS Corporation of Tokyo, Japan, on 16 June 2022 and sent to JICA for concurrence. <p>But JICA has not issued concurrence (based on the Economic Policy of Japan) for the above requests so far. Therefore procurement process could not be continued.</p>	Action should be taken to achieve the desired progress.

- (b) By the end of the year under review, the relevant preliminary work had been done in the process related to the contract executed by the project. Although Yen 872 million had been allocated for the project consultancy. however the action had not been taken to call for Bids.
- The Consultancy Contract has been awarded. A tender agreement (Procurement Package No. 06) was signed to supply and install equipment for the Medical Laboratory Technologists Training Schools & Bio-Medical Engineering Services Division of the Ministry of Health.
- All the Detailed plans and Tender Documents of Construction packages have been prepared and submitted to JICA on 17 June 2022 through the Dept. of External Resources for concurrence. Unfortunately, the approval has not been granted yet to publish the tender. The financial progress of the consultancy service is correct, as noted in the Audit query. Due to the suspension of loan disbursement, the physical progress remains at 30%.
- Action should be taken to achieve the desired progress.
- (c) In the years 2020, 2021 and 2022, only 243 million Yen had been utilized out of the loan assistance amount of 10,639 million Yen agreed to be provided by the Japanese lending Agency. The amount utilized was a very low figure of 2.78 percent of the total amount to be given.
- Only consulting Services were operated in 2020, 2021, and 2023. The total money of the Loan was utilized only for the consultants' payments. Therefore loan expenditure was only 2.78 % of the loan amount. (Yen 10639 million) . But physical progress remains at a satisfactory level. The progress will be significantly increased with the commencement of construction and installation of equipment as planned. The lengthy planning period is a typical feature of projects funded by the Government of Japan due to the preparation of comprehensive plans with the end users and governing bodies.
- Action should be taken to achieve the desired progress.

3.3 Matters in Contention Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
a)	<p>The Technical Evaluation Committee had recommended to purchase 04 nos of Computers of Rs. 173,000 per each and the Procurement Committee had approved this. Although the project director's letter No. JICA/HAMSIP/12/2019 and dated 22 December 2020 informed the relevant institution to supply these computers within a week, the computers were received on 18 May 2021. No action had been taken regarding the delay and had not been check whether the computers had been supplied as per the prescribed specifications. As per the project director's letter dated 22 July 2021 informed the supplier had not been supplied 04 DVD Drives. But Rs. 692,000 was paid to the supplier through voucher number 100 dated 11 August 2021.</p>	<p>Covid 19 epidemic was extensively spread all over the country during the period of this computer procurement. Most of the government sector and private institutions' offices were limited to essential work only. Ministry of Public Administration instructed to work from home or attend limited days a week. Postal service was not operated as usual. Some institutions did not allow visitors to go in to get their services. International goods transportation was hit badly and not allowed by some countries. Sri Lanka has imposed several rules to prevent the entry of new strains of the COVID This item is not manufactured in Sri Lanka and it has to be imported. Project Management Unit was continuously in contact with supplier officials and tried their best to get these items delivered as it was a priority requirement. Unfortunately, there was no success due to the non-favourable disease situation in the world. In addition to the numerous verbal discussions, PMU informed the relevant supplier on 08 January 2021 and 11 February 2021 to supply the order without delay. The supplier has repeatedly informed their grievances and explained the situation on and off.</p>	<p>This should be investigated and necessary action should be taken accordingly</p>
b)	<p>While not registered for VAT, when paying for consulting services in relation to the year 2020 to the organization that provides technology consulting services, as VAT, Rs. 13 million had been paid. In the invoices submitted for payment, it was stated that the VAT number was pending.</p>	<p>The year 2020 consultancy firm handed over the VAT registration documents to the Inland Revenue Department and obtained a temporary Personal Identification Number (PIN). Due to COVID, they couldn't approach the Inland Revenue Department. As a project management unit, we tried to contact the inland revenue department. We tried several times, but it failed. The consultancy firm submitted a letter requesting VAT and wished to receive VAT Cheques in favor of the consultant's name (KRC). To secure the GOSL funds, we didn't issue the VAT cheque as requested. But for the</p>	<p>Should be verified all documents before paying</p>

accounting purpose and to successfully maintain the project progress, we wrote it in favour of the Commissioner General of Dept. of Inland Revenue and held it in our cash book. We were highly concerned about a proper VAT number and never paid a VAT cheque for the consultancy. The amount of Rs 13,037,608.48 has remained as unrealized cheques.

- c) As the provision of the service agreement does not mention the termination of the consultancy services, the necessary legal advice had not been taken in this regard or the necessary action was taken in relation to the performance bond.
- Due to uncertainty regarding the continuation of the project and loan disbursement, the Project Management Unit has informed the Ministry of Health with copies to the Ministry of Finance about the functionality of the consultancy contract and activities of the Project by its letter dated 04 November 2022. Further, it has been discussed at the Project Steering Committee meeting on 27 November 2022.
- Should be included all rules & conditions, to the agreement.

The possibility of termination of the Consultancy Contract on mutual agreement, the value of the Performance Bond of the Consultancy Contract and the Letter of Credit (time frame) related to the Consultancy Contract were discussed in a forum chaired by the Secretary of Health and participated by the Head of Legal Branch of Ministry of Health. As this is not a termination of the Project, the Ministry of Health has taken over the responsibility of dealing with the above subject. Project Management Unit has submitted a request to the Legal Branch of the Ministry of Health for instructions.

3.4 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
<p>According to the project status report (PSR 2021) prepared for Kandy, Anuradhapura and Kurunegala hospitals for the last quarter of the reviewed year, approximately 134,000 patient deaths occur every year and 40 percent of them are due to cardiovascular diseases. Accordingly, it was observed that due to the failure of the project to be implemented on time, the deaths of patients will increase further and they may have to face more related health problems</p>	<p>This statement is perfectly valid. These data were taken from the content of the Project Status Report (PSR) published quarterly and distributed to all the stakeholders by the Project Management Unit. Delays in project completion will have a harmful effect on patients with Cardiovascular diseases in the country. Deaths rate will increase. Government expenditure to transport patients from distant places like Badulla to major hospitals (where facilities are available) will increase. Suspension of the Project and termination of the Project Management Unit on 30 April 2023 will lose the opportunity to save innocent lives who deserve emergency cardiac care.</p>	<p>Should be taken necessary actions to complete those projects on time</p>