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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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27 September 2019

The Secretary,
Ministry of Health, Nutrition and Indigenous Medicine

**Report of the Auditor General on the Financial Report of the Second Health Sector
Development Project – Component I for the year ended 31 December 2018**

The English version of the above mentioned report is sent herewith.

28 Oct 2019

R.M.J Rathnayake
Acting Auditor General

- Copies to :-
01. Secretary, Ministry of Finance
 02. Project Director, Second Health Sector Development Project Component I
 03. Senior Financial Management Specialist, International Development Association, for information





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29 September 2019

The Secretary,
 Ministry of Health, Nutrition and Indigenous Medicine

09 Oct 2019

Report of the Auditor General on the Financial Report of the Second Health Sector Development Project – Component I for the year ended 31 December 2018

1. Financial Report

1.1 Opinion

The audit of the financial report of the Second Health Sector Development Project – Component I for the year ended 31 December 2018 comprising the statement of expenditure for the year then ended 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-5228 LK dated 19 August 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

In my opinion, the accompanying financial report of the Second Health Sector Development Project – Component-I agreed with the information provided in the financial statements of the Ministry of Health, Nutrition and Indigenous Medicine as at 31 December 2018 and gives a true and fair view of the state of the affairs of the Project.

1.2 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 Report section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.





1.3 Other information on performance of the Project

The other information as stated below does not include in the financial report and my opinion thereon does not cover the other information.

- According to the Project Administration Manual, the goals stipulated in the National Health Development Plan are expected to be achieved by the Second Health Sector Development Project - Component I, through 03 Disbursement Link Indicators and 11 Non Disbursement Indicators. Therefore, the construction works of 05 Emergency Treatment Care Units were expected to be completed during the year under review, out of 14 new Emergency Treatment Care Units scheduled to be constructed under the National Health Development Plan. However, the construction works of 02 new Emergency Treatment Units had been completed at a cost of Rs.742.97 million as at 31 December 2018 under the Disbursement Link Indicator-1.
- The unsolicited proposals made in September 2010 by a foreign supplier to commence cancer treatments by establishing a Cancer Treatment Plant at a cost of US\$ 53.38 equivalent to Rs.6,853.46 million had been rejected, due to unaccepted financial conditions included in the proposal. However, the respective contract had been awarded subsequently in 2015 to the same supplier at the above mentioned bid price without calling fresh bids. It was observed that 02 Linear Accelerators procured at a cost of Rs.476 million on 02 December 2015 had remained idle at the General Hospitals in Batticaloa and Jaffna, as the concrete bunkers to install those machines were not constructed even as at 31 December 2018.
- The Project had taken action to measure the performance of 69 Base Hospitals through Environment Protection License and Schedule Waste Management License according to the National Environmental Act, No.47 of 1980, under the Non-Disbursement Link Indicator-10. However, the reviewing process of performance of 12 Base Hospitals had only been completed as at 31 December 2017 and no any reviews thereon had been carried out during the year under review, as the respective activity was not included in the Annual Action Plan.

- According to the Non-Disbursement Link Indicator-09, it was expected to detect 13,861 Tuberculosis cases as enable to educate general public for conceptual changes and use of modern detection technologies thereon. Therefore, 10,811 cases had been detected as at 31 December 2017. However, the respective activity had not been included in the Annual Action Plan. Further, no action had been taken to approach the patients for treatments through the modernized education programmes.

1.4 Responsibilities of management and those charged with governance for the Financial Report

Management is responsible for the preparation of financial report that gives 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.

1.5 Auditor's Responsibilities for the audit of the Financial Report

My objective is to obtain reasonable assurance about whether the financial report 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 report.

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 report, 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 the Project's internal control.
- 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 report, including the disclosures, and whether the financial report 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. Report on other requirements of the Donor Agency

A required by the International Development Association, I state the followings:

- (a) The basis of opinion of the audit is as stated above.
- (b) In my opinion:



- the funds provided had been utilized for the purposes for which they were provided,
- the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- the financial covenants laid down in the Financial Agreement had been complied with.

R.M.J Rathnayaka
Acting Auditor General