Report of the Auditor General on Head 111 – Ministry of Health, Nutrition and Indigenous Medicine -– Year 2015

The audit of the Appropriation Account, Revenue Account, Winding up Advance Accounts and the Reconciliation Statements including the financial records, books, registers and other records of the Head 111 – Ministry of Health, Nutrition and Indigenous Medicine for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 08 December 2016. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account, Revenue Account, Winding up Advance Accounts and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliations Statements that are free from material misstatements, whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs.148,164.43 million and out of that, Rs.130,241.69 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Ministry amounted to Rs.17,922.74 million or 12.1 per cent. Details appear below.

Expenditure	As at 31 December 2015			Savings as a Percentage of the Net Provisions
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	109,446.25	100,754.15	8,692.10	7.94
Capital	38,718.18	29,487.54	9,230.64	23.84
Total	**148,164.43**	**130,241.69**	**17,922.74**	**12.10**

2.2 Revenue Account

Estimated and Actual Revenue

The Ministry had prepared a Revenue Estimate totalling Rs.168.00 million in respect of the Revenue Code 10.03.07.01 for the year 2015 and revenue totalling Rs.93.51 million had been collected during the year under review. It had been 55.7 per cent of the estimated revenue.

2.3 Advance Account

Advances to Public Officers Account

Limits Authorized by Parliament

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.11101 of the Ministry and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
1,270.00	1,229.69	980.00	1,055.49	2,500.00	1,583.99

2.4 Imprest Accounts

The balances of 02 Imprest Accounts of the Ministry as at 31 December 2015 totalled Rs.252.38 million. Details appear below.

Imprest Account Number	Balance as at 31 December 2015
	Rs. Millions
7002/0000/00/0100/0015/000	160.73
7003/0000/00/0014/0015/000	91.65
Total	**252.38**

2.5 General Deposit Accounts

The balances of 09 General Deposit Accounts of the Ministry as at 31 December 2015 totalled Rs.759.25 million. Details appear below.

Deposit Account Number	Balance as at 31 December 2015
	Rs. Millions
6000/0000/00/0001/0026/000	2.43
6000/0000/00/0002/0027/000	2.93
6000/0000/00/0015/0024/000	0.04
6000/0000/00/0001/0111/000	15.53
6000/0000/00/0002/0155/000	24.35
6000/0000/00/0013/0108/000	168.63
6000/0000/00/0016/0099/000	518.38
6000/0000/00/0018/0102/000	18.49
6000/0000/00/0019/0024/000	8.48
Total	**759.25**

2.6 Audit Observation

The Appropriation Account, the Revenue Account, Winding up Advance Accounts and the Reconciliation Statements for the year ended 31 December 2015 of the Ministry of Health, Nutrition and Indigenous Medicine have been prepared satisfactorily subject to the Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the said Management Audit Report appear in paragraph 3.

3. Material and Significant Audit Observations

3.1 Presentation of Accounts

Even though the Ministry should have presented the Winding up Advance Accounts of the following two advance activities to Audit by 30 November 2004, those two accounts had not been presented to Audit even by 01 November 2016. Details appear below.

Item Number	Name of Account	Delay
		Years
34003	Winding up Advance Account of the Angoda Mental Hospital Occupational Therapy Advance Activity.	11
34004	Winding up Advance Account of the Bakery Advance Activity for the use of In-house Patients of the Angoda and Mulleriyawa Mental Hospitals.	11

3.2 Non-maintenance of Registers and Books

It was observed during audit test checks that the Ministry and the Hospitals under the Ministry had not maintained the following registers while certain other registers had not been maintained in the proper and updated manner.

	Type of Register	Relevant Regulation	Observations
(i)	Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978	The Ministry had not maintained the Register of Fixed Assets in the proper and updated manner and 08 hospitals had not maintained Registers of Fixed Assets.
(ii)	Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/02/2002 of 28 November 2002	Not maintained by the Ministry and 08 hospitals under the Ministry.
(iii)	Register of Losses	Financial Regulation 110	Not maintained by the Ministry and 02 hospitals under the Ministry.
(iv)	Register of Electrical Fittings	Financial Regulation 454(2)	Not maintained by the Ministry and 09 hospitals under the Ministry.
(v)	Register of Listing of Motor Vehicles	Financial Regulation 1647 (e)	The Register of Listing of Motor Vehicles had not been maintained by the Ministry and 04 hospitals under the Ministry.

3.3 Lack of Evidence for Audit

The following observations are made.

(a) A payment voucher valued at Rs.795,976 of the Ministry on which action in terms of Financial Regulation 272(2) had not been finalized, had been misplaced.

(b) Provision totalling Rs.36,704.04 million had been made for 40 construction contracts from the Annual Budget Estimates in the year under review and throughout the 04 preceding years. The accumulated expenditure by 31 December 2015 amounted to Rs.30,415.33 million. Adequate information in respect of those construction contracts had not been made available to Audit even by the end of the year under review.

3.4 Replies to Audit Queries

Replies to 21 audit queries issued to the Ministry during the year under review and 25 audit queries issued in the preceding years had not been furnished even by 08 December 2016. The value of computable transactions related to those audit queries amounted to Rs.26,150.70 million.

3.5 Appropriation Account

3.5.1 Non-utilization of Capital Provision

Even though provision had been made, the entire capital provision amounting to Rs.4,041 million made for 28 Objects in the year under review had been saved due to delay in commencing the projects as a result of failure in getting the loan agreements implemented and to complete the Procurement Process without delay as well as the delay in the preparation of plans and failure in taking action efficiently according to an Action Plan. Moreover, the entire provision totalling Rs.18,725 million made for 98 Objects during the 4 preceding years, had also been saved. Out of the whole savings, a sum of Rs.19,544 for constructions, a sum of Rs.2,237 million for the purchase of equipment and a sum of Rs.985 million for other health development programmes had been made.

3.5.2 Underutilization of Foreign Grants and reimbursable Foreign Loans

Provisions comprising domestic funds of Rs.19,924 million and foreign loans of Rs.11,460 million had been made in the year under review for the capital expenditure financing and out of that, 85 per cent and 95 per cent had been utilized respectively. However, out of the Foreign Grants of Rs.3,656 million and reimbursable Foreign Loans of Rs.1,765 million made for the capital expenditure financing, 17 per cent and 29 per cent only had been utilized respectively. It was observed that non- preparation of estimates of Capital Projects comprising sources of Foreign Grants and reimbursable Foreign Loans based on real annual targets and failure to prepare and implement an Action Plan with a specific time frame had attributed to these savings.

3.6 Imprest Accounts

The following observations are made.

(a) The imprest balance of Rs.362,702 to be settled by 31 December 1997 by the Ministry, had not been settled even by 27 December 2016.

(b) In terms of Financial Regulation 371(5) as amended by the Public Finance Circular No.03/2015 of 14 July 2015, the ad-hoc sub-imprests received should have been settled within 10 days after the completion of the purpose. Ad-hoc sub-imprests totalling Rs.915,581 granted to 62 officers in 131 instances by the Ministry, had been settled after delays ranging from 01 month to 11 months after completion of the purpose. Further, ad-hoc sub-imprests totalling Rs.577,203 issued to 27 officers in 38 instances and a sum of Rs.64,340 issued to one officer in 17 instances where a period ranging from 08 months to 20 months had elapsed after issuance of ad-hoc sub-imprests, had not been settled even by 31 August 2016.

3.7 General Deposit Accounts

The following observations are made.

(a) Old Deposit Accounts should have been settled and closed by 31 December 2015 by transferring the remaining balances to applicable deposit categories or deposits which were not required to be so transferred by crediting to the Government revenue in terms of provisions of paragraph 2.7 of the State Accounts Circular No.244/2015 of 29 October 2015. However, action had not been taken to settle and close the balances in 03 old General Deposit Accounts with deposits totalling Rs.5,398,031 by 31 December 2015.

(b) Action in terms of Financial Regulation 571 had not been taken on deposits totalling Rs.65,869,737 older than 2 years.

3.8 Reconciliation Statement of Advances to Public Officers Account

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The following deficiency was observed during the course of test checks of the Reconciliation Statement as at 31 December 2015 relating to the Advances to Public Officers Account bearing Item No. 11101.

The Ministry had failed to recover the outstanding loan balances totalling Rs.44,297,166 granted to the officers who had deceased, retired, vacated the post and who had been interdicted by 31 December 2015 due to failure in taking action in terms of provisions of Sections 4.2, 4.4, 4.5 and 4.6 of Chapter XXIV of the Establishments Code. Out of that, loan balances older than 5 years totalled Rs.19,254,836.

3.9 Winding up Advance Accounts

According to the decision of the Cabinet of Ministers No.අ.ම.ප.04/1121/008/036 dated 01 October 2004, the winding up activities of the Advance Accounts Nos.34003 and 34004 had been assigned to the Ministry. Those winding up Activities should have been finalized by 30 November 2004. Even though 11 years had elapsed by 31 December 2015, the winding up had not been finalized. These 2 Advance Accounts included a recoverable sum of Rs.3,450,843 older than 11 years, balances of Rs.89,841 which should be settled and unfinished assets valued at Rs.667,091.

3.10 Good Governance and Accountability

3.10.1 Annual Action Plan

The following observations are made.

(a) Even though the Ministry should have prepared an Annual Action Plan in term of the Public Finance Circular No.01/2014 of 17 February 2014, the Action Plan for the year under review had been prepared on 27 April 2015 after a delay of four months.

(b) An Action Plan for the year under review had not been prepared for 03 hospitals. In terms of paragraph 03 of the said Circular, the Organizational Structure, details on the approved cadre and actual cadre, Imprest Requirement Plan for annual activities and the Internal Audit Plan of the Ministry had not been included in Action Plans prepared for 15 hospitals. Progress Reports for the year under review had not been prepared for 14 hospitals of them.

3.10.2 Annual Procurement Plan

The following observations are made.

(a) Parliament had approved capital provision of Rs.38,718.18 million from the Annual Budget Estimates to obtain work, goods and services being followed by the Government Procurement Guidelines. In terms of the National Budget Circular No.128 of 24 March 2006, the Procurement Plan of the Ministry had been prepared on 01 March 2015, after 02 months of the beginning of the year for the utilization of provision made. As such, the intended objectives of the Plan could not be achieved as expected.

(b) According to the matters given below, the Procurement Plan for the year 2015 had not been properly prepared by the Bio Medical Engineering Service Division. As such, the expected activities of the Ministry could not be achieved according to the Plan.

(i) The Procurement Plan had not been prepared according to the Format given in Guideline 4.2.1 of the Procurement Manual and the approval of the Secretary to the Ministry as well had not been obtained. The Procurement Time Schedule had also not been prepared.

(ii) Even though the total provision made for this Division for the year 2015 amounted to Rs.4,168 million, an unrealistic plan for the purchase of 10,538 items of equipment, estimated cost of which was Rs.7,424 million exceeding the provision, had been included in 196 instances in the Procurement Plan.

(iii) Out of 10,538 items of equipment costing Rs.7,424 million planned to be purchased, only 1,279 items of equipment costing Rs.592 million had been purchased and the target achieved was only 8 per cent of the expected cost.

However, 3,525 items of equipment costing Rs.2,265 million which was not included in the Procurement Plan, had been purchased in the year 2015. Accordingly, it was revealed that purchases were being made in large scale not complied with the Procurement Plan.

(c) According to the information made available to Audit, Procurement Plans for 12 hospitals had not been prepared in terms of provisions in Guideline 4.2.1 of the Procurement Manual. Further, Progress Reports indicating the progress of procurement activities of 15 hospitals, had not been prepared.

3.10.3 Annual Performance Report

In terms of the Public Finance Circular No. 402 dated 12 September 2002, the Performance Report should be tabled in Parliament within 150 days after the close of the financial year. Nevertheless, the Performance Reports of the preceding year and the year under review had not been tabled in Parliament even by 31 August 2016.

3.10.4 Internal audit

In terms of Financial Regulation 133, an internal audit should have been carried out in the Ministry and 127 hospitals and institutions under the Ministry and 19 Foreign funded Projects. Even though the number of Auditors attached to the Internal Audit Unit in 05 preceding years including the year under review, had ranged from 10 to 15, the aforesaid function had not been performed adequately. Even though special audit tests, ranging from 24 to 55 had been carried per year during the 5 preceding years including the year under review, comprehensive audits had been carried out only in hospitals and institutions ranging from 12 to 28 per year.

3.11 Assets Management

The following deficiencies were observed during the course of audit test checks carried out in respect of the assets of the Ministry.

(a) Idle and Underutilized Assets

It was observed during the course of audit test checks that certain assets categorized below, had been either idle or underutilized.

Category of Assets	Number of Units	Value Rs.	Idle or Underutilized Period
Lady Ridgeway Hospital for Children			
- Washing Machines	01	Not revealed the cost	Since 25 years
- Ironing Machines	01	-Do-	-Do-
- Boiler	01	-Do-	-Do-

Three storeyed building of the National Institute of Mental Health	01	-Do-	Over 20 years
Medical Equipment of the Castle Street Hospital for Women	48	131,000	From a period ranging from 4 months to 2 years
Nuwara Eliya General Hospital			
- Ambulance	01	1,200,000	Since 4 months
Kandy General Hospital			
- Van	01	800,000	Since 1 year
- Ambulance	01	400,000	Since 4 years

(b) Conduct of Annual Boards of Survey

The following observations are made.

(i) The Annual Boards of Survey for the year 2015 should have been conducted and the reports thereon should have been furnished to the Auditor General before 17 March 2016 in terms of the Public Finance Circular No.02/2014 of 17 October 2014. Out of 128 hospitals and institutions under the Ministry, those reports relating to 49 hospitals and institutions had not been made available to Audit even by 31 August 2016.

(ii) A summarized report on excesses and shortages shown in Boards of Survey Reports relating to the year 2015, had not been prepared. Proper steps had not been taken to bring the excesses into books and take action in terms of Financial Regulations 101, 103, 104, 105 and 109 in respect of shortages.

(c) Assets given to External Parties

The Ministry had irregularly released certain assets to external parties. Details appear below.

(i). Eleven Motor Vehicles which had not been formally disposed of had been recorded in the registers as released to Vocational Training Institutions in the years 2002, 2013 and 2015 as scrapped motor vehicles. Evidence to ensure whether the motor vehicles of which the registration in the name of the Ministry had not been cancelled, had been taken over or received by the parties concerned, had not been furnished to Audit.

(ii). Even though the using right of 10 motor vehicles had been assigned to 05 external institutions, action had not been taken to transfer the legal ownership thereof to those institutions.

(d) Non-disposal or Irregular Disposal of Assets

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It was revealed that the legal ownership of 11 motor vehicles complained to Police as disappeared during the war time in the North-East rests with the Ministry. Action had not been taken either for holding inquiries in connection with those motor vehicles in terms of the Financial Regulations or for the cancellation of their registration to prevent them being used for any irregularity or improper activities.

(e) Misplaced Assets

It was revealed that 752 motor vehicles and 3,134 motor cycles of which the legal ownership belongs to the Ministry were not physically available in the Vehicle Fleet of the Ministry. The Ministry had failed to furnish the information whether those motor vehicles were disposed of or the places where they are located or the parties using them at present.

(f) Unsettled Liabilities

The following observations are made.

(i) The unsettled liabilities of the Ministry as at 31 December 2015 since a period less than one year amounted to Rs.6,068.22 million.

(ii) Liabilities amounting to Rs.350.27 million had been committed exceeding savings, after the utilization of provisions made for Objects, contrary to the Financial Regulation 94(1).

(iii) The unsettled liabilities for medical supplies provided by a State Corporation as at 31 December 2015 amounted to Rs.4,003.25 million. However, according to the financial statements of the Corporation, it was confirmed that those liabilities amounted to Rs.4,176.88 million. However, the Ministry had not taken action in respect of the difference of Rs.173.63 million so revealed.

3.12 Non-Compliances

(a) Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Statutory Provisions	
(i) Sections 2, 8 and 12 of the Public Contract Agreement Act, No.3 of 1987	When the estimated cost or agreement cost of a contract exceeds five million rupees, the relevant particulars should be furnished to the Registrar of Public Contracts and get the Bidder and the agreement registered with the Registrar. Even though no action whatsoever should be taken with the contractors in respect of contracts, who do not produce a Certificate of Registration, action in terms of those provisions had not been taken in respect of the contractors to whom 08 contracts had been awarded with a contract agreement cost totalling Rs.120.60 million of the Lady Ridgeway Hospital for Children.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
Section 23 of Chapter XII	Three Medical Officers attached to the Ministry had proceeded abroad for private tours in 03 instances of the year under review without obtaining the approval of the Secretary to the Ministry. One of those Medical Officers had furnished particulars in stating that he was serving in the Karapitiya Teaching Hospital while staying abroad and obtained a sum of Rs.8,838 as overtime and holiday pay.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 396(d)	Action in terms of Financial Regulations had not been taken in respect of 122 expired cheques, but not presented to the Bank, valued at Rs.2,484,972 relating to 25 Bank accounts.
(ii) Financial Regulation 751	Eight hundred and thirty two items received as donations to 10 hospitals had not been inventoried.

(d) Public Finance Circulars

(i) Circular No.431 of 24 April 2008	Air tickets valued at Rs.3,460,136 had been purchased from a private institution without purchasing from State institutions stated in terms of provisions in circulars to participate in the 68th Session of the Regional Committee of the World Health Organization held during the period from 7 September 2015 to 11 September 2015 in Dili, Timor-Leste (East Timor) and in the courses held during the period from 29 July 2015 to 10 June 2015 in Singapore.
(ii) Circulars No.03/2014 of 30 December 2014 and No.03/2014(I) of 10 March 2015 and the Letter No. NPC/9/1/30 of 10 September 2015 of the Secretary to the National Salaries and Cadre Commission.	Even though a sum of Rs.2,500 can be paid as monthly communication allowances to the Medical Officers in Primary Grade and Grade II, instead, a sum of Rs.4,000 had been paid. The communication allowance so overpaid to 12,176 Medical Officers in the year under review itself, amounted to Rs.219.17 million.
(iii) Circular No.01/2015/01 of 15 May 2015	In the payment of incidental allowances to two officers who proceeded abroad for the purpose of improving qualifications, knowledge and skills, incidental allowance had been paid considering as foreign mission or official duties related to the subject falling within the scope of the Institute, which cannot be performed within the Island. As such, incidental allowance of Rs.42,997 had been overpaid.

(e) **Public Administration Circulars**

Circular No.09/2009 of 16 April 2009	It was established that the Ministry and 128 hospitals and institutions under the Ministry had not used Finger Print Machines.

3.13 Foreign Aid Projects

Out of foreign financing provision amounting to Rs.17,869.33 million made in the year under review, a sum of Rs.11,210.86 million had been spent for 19 Projects with a total estimated cost of Rs.65,134.28 million. The following observations are made during the course of audit test checks of 03 out of these 19 foreign aid Projects.

(a) **Project on the Establishment of the 08 storeyed Epilepsy Unit in the National Hospital of Sri Lanka and the Implementation of Epilepsy Management Programme throughout the Island**

The following deficiencies were revealed during the course of audit test checks carried out on the aforesaid Project.

(i) A foreign aid loan of Saudi Riyal 281.25 million had been approved for this Project. The construction work of 08 storeyed building of the Project commenced in the year 2008 should have been performed by utilizing provision of Saudi Riyal 32 million or Rs.969.8 million. According to the Saudi Development Funds Guidelines, at least 03 bids should have been evaluated for the selection of a contractor therefor. However, only 02 bids had been evaluated and a contractor had been selected to cause to descend piles for the construction of the building. In addition to that, pre-qualifications of Bidders as well had not been checked.

(ii) The engineering estimate for drilling and concreting of piles was Rs.75.48 million and the contract had been awarded for a contract value of Rs.91.37 million, which was, 21 per cent more than the estimate.

(iii) In terms of Guideline 4.3 of the Government Procurement Guidelines, a Total Cost Estimate had not been prepared for the construction of the building. The procurement had been commenced in the year 2012 by estimating the Engineering Estimate as Rs.01 billion and the contract period as 18 months. However, at the time of evaluation of 05 bids received, that Engineering Estimate had been increased to Rs.1.8 billion and the contract period had been decreased to 12 months. However, reasons for increasing the Engineering Estimate by 80 per cent and decreasing the contract period by 6 months had not been explained to Audit. However, the contract had been awarded on 31 May 2013 for a contract value of approximately Rs.1.8 billion, which was prepared in the second estimate, that is, Rs.1,793.45 million.

(iv) In terms of Guideline 5.3.13 of the Government Procurement Guidelines, the bid security should be 1 per cent to 2 per cent of the estimated contract value and as such, a minimum bid security of Rs.18 million should have been obtained. Nevertheless, only a bid security of Rs.10 million had been obtained.

(v) In terms of the contract agreement, the contract should have been completed by 03 April 2014. Nevertheless, the financial progress by that date amounted only to Rs.309.39 million or 17 per cent. Further, its financial progress by 31 December 2015 amounted only to Rs.1,128.05 million or 63 per cent. Even though the period of delay by the end of the year under review was 637 days, the maximum liquidated damages of Rs.179.34 million or 10 per cent of the contract value, recoverable in terms of conditions of the Agreement, had not been recovered.

(vi) A sum of Saudi Riyal 35.5 million allocated for the purchase of equipment required for the building had been spent for the construction of the building. As such, equipment could not be purchased.

(vii) The actual expenditure for the construction of buildings and the consultancy services had increased by Rs.977.39 million than the estimated cost due to delay in projects.

(viii) In terms of the first Project Agreement, the grace period for repayment of loan installments was 05 years and as such, the Government of Sri Lanka had paid a sum of Rs.401.69 million as loan installments by 16 February 2016 since the year 2013 and a sum of Rs.85.68 million as loan interests by 16 February 2016 from the commencement of the Project to the Saudi Development Fund. However, benefits thereof could not be ascertained due to delay in the Projects.

(ix) Contrary to provisions of the Management Services Circular No.33 of 05 April 2007, the period of appointment of the Project staff had been extended without evaluating their performance and the post of the Director of the Project as well had been covered by an acting appointment from 20 February 2012 to 08 December 2016. Further, in terms of circulars' provisions, action had not been taken to surcharge the Director of Project in respect of unusual delays in the Project.

(b) Observations on the Project of the Construction of the Maternity Hospital at Mahamodara, Galle

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This Project which was commenced in the year 2005 had been ceased halfway only after the construction of the foundation. Nevertheless, the information such as the manner in receiving provision for such construction, amount of provision received, the total cost estimate, the engineering estimate, the procurement procedure followed for the selection of the contractor, the value of contract, agreement, design and drawings, payments made to the contractor, etc. was not made available to Audit.

(c) **Project on the Expansion of Production Capacity of the State Pharmaceutical Manufacturing Corporation**

It had been planned to commence a Project on the Expansion of Production Capacity of the State Pharmaceuticals Manufacturing Corporation in the year 2012 and complete in the year 2017, costing Rs.1,777.13 million obtaining JICA loan facilities for the construction of buildings and for the purchase of machinery under 02 components. Even though a provision of Rs.1,993.1 million had been made during the period from the year 2012 to the year 2015, the financial progress as at 31 December 2015 amounted to Rs.160.7 million only. It had been expected to sign the contract agreements and open Letters of Credits for purchases and construction activities according to the Action Plan for the year 2015. Nevertheless, evaluation of bids was being carried out and construction activities had not been commenced by 30 June 2016.

3.14 Implementation of Projects under Domestic Financing

3.14.1 Project on the Construction of Drug Stores in Mulleriyawa for the Medical Supplies Division

Provision of Rs.65.79 million had been made in the year 2008 for the construction of Drug Stores in Mulleriyawa for the Medical Supplies Division and the total cost estimate thereon amounted to Rs.175.99 million. Construction activities had been commenced on 29 September 2008 and the contract had been awarded for a contract value of Rs.125.38 million on the agreement of completing works by 10 October 2009. The contractor had ceased construction by 31 December 2013 and a sum of Rs.112.60 million comprising a sum of Rs.12.65 million for price variations and Rs.18.81 million for additional works, had been paid to the contractor by that time. The approval had not been obtained for price variations exceeding 10 per cent of the contract value and for additional works. Even though provision of Rs.25.00 million and Rs.10.00 million had been made for remaining work in the years 2014 and 2015 respectively, those provision had been completely saved. Construction works had been completely abandoned by the end of the year under review.

3.14.2 Project on the Construction of 07 storeyed Ward Complex in the Colombo South Teaching Hospital

The following observations are made in this connection.

(a) Even though the contract value of the Project amounted to Rs.398 million, the contractor had been selected by the Ministry Procurement Committee instead of the Cabinet Appointed Procurement Committee.

(b) The approved total cost estimate had not been made available to Audit.

(c) The total provision made from domestic funds during 10 years from the year 2006 to the year 2015 amounted to Rs.736 million. However, works had not been completed even by 31 December 2015 and the period of delay was 08 years. Financial and physical performance as reported by that date amounted only to Rs.508.6 million and 69 per cent respectively.

(d) Even though it had been decided to increase the 07 storeys of the building to 08 storeys, action had not been taken for the preparation of a revised engineering estimate or obtaining the approval of the relevant Procurement Committee or for entering into a revised agreement with the contractor.

(e) Even though the contractor had ceased the works, action had not been taken to recover advances of Rs.51 million.

(f) Equipment costing Rs.43 million had been lying idle at the work site by the date of this report, for more than two years.

3.14.3 Project on the Construction of Colombo Dental Institute Building

The following observations are made in this connection.

(a) In terms of Guideline 4.3 of the Government Procurement Guidelines, a total cost estimate had not been prepared and the approval of the Secretary to the Ministry had not been obtained thereon.

(b) In terms of Guideline 2.8.3 of the Government Procurement Guidelines, a Technical Evaluation Committee appointed for the Ministry Procurement Committee should consist of at least 05 members. Nevertheless, the Technical Evaluation Committee of this procurement had consisted of only three members.

(c) Descending of piles into the foundation and the construction of the building had been considered as two procurements. The Central Engineering Consultancy Bureau had been selected as the consultant of the purpose of descending of piles based on the payment of consultancy fees at 8 per cent of the Engineering Estimate without following the Procurement Procedure and a sum of Rs.1.01 million had been paid as consultancy fees.

(d) Even though the initial cost estimate for the purpose of descending of piles amounted to Rs.69.84 million, the contract value amounted to Rs.39.69 million. A sum of Rs.39.11 million had been paid to the contractor for the completion of work. As such, it was observed that the Engineering Estimate was an over estimate.

(e) The Cabinet of Ministers had decided to award the contract for the construction of the building to the Central Engineering Consultancy Bureau (CECB) on Turnkey Basis on the Engineering Estimate prepared for Rs.694.12 million by the CECB subject to the approval of the permanent Technical Evaluation Committee of the Ministry of Construction, Engineering Services, Housing and Common Amenities. However, the approval of the Permanent Technical Evaluation Committee had not been obtained even by 31 December 2015 and a sum of Rs.557.77 million had been paid to the contractor by that date.

(f) The Ministry had not entered into an agreement with the Central Engineering Consultancy Bureau. Further, according to the financial proposal submitted by the Consultant, the contract should be completed within 18 months. Nevertheless, 36 months had been given therefor by the letter of awarding the contract.

(g) Even though the initial cost estimate for the purpose of descending of piles amounted to Rs.69.84 million, the contract value amounted to Rs.39.69 million. As such, it was observed that the Engineering Estimate for the construction of the building was an over estimate.

(h) According to the letter of awarding the contract, works should have been completed by 31 March 2014. However, works had not been completed even by 15 July 2016. The period of delay was 02 years and 04 months. Medical equipment received as donations and purchased at a cost of Rs.108.25 million had remained idle due to that delay. Moreover, the guaranty period of them was being expired.

(i) The Bio-Medical Engineering Services Division had purchased 05 syringe pumps and 02 operation theatre lamps in the year under review by spending a sum of Rs.5.04 million, considering the opening of the Dental Institute building in Colombo as an urgent necessity. It was established that despite the equipment submitted by the bidder who had quoted the lowest price of Rs.2.97 million for 07 items of equipment, had satisfied all necessary specifications, the lowest bid had been rejected considering only the ex- stock and equipment had been purchased from the seventh lowest bidder. As such, a financial loss of Rs.2.07 million had occurred.

3.14.4 Project on the Construction of a New Ward Complex for the Chilaw Base Hospital

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The total provision made during 03 years, from the year 2013 to the year 2015 amounted to Rs.115.00 million. Out of that, during the 03 years, a sum of Rs.96.00 million or 84 per cent of the total provisions had been transferred to other projects by the end of the year under review. A period of three years had been spent for the pre-procurement activities of this project and awarding of contracts had failed even by the end of the year 2015.

3.14.5 Project on Construction of a Drug Store in the Welisara Chest Hospital Premises for the Medical Supplies Division

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Construction of a drug store had been planned in the Welisara Chest Hospital premises for the Medical Supplies Division. The State Engineering Corporation had been appointed as its consultation services institute in the year 2013. Provisions of Rs.10.00 million had been made in the year 2014 for that purpose and out of that, a sum of Rs.6.66 million had been spent and constructed only the security fence around the land. The constructions of the building could not be commenced due to failure in taking action to make provisions in the year 2015 on priority basis. Moreover, a store had been rented by spending a sum of Rs.13.73 million for 18 months, at the rate of Rs.762,856 per month from the year 2014 to 31 December 2015.

3.15 Performance

According to the Annual Budget Estimate and the Action Plan of the year 2015, the observations on the progress of the Ministry are as follows.

(a) **Activities contrary to Key Functions**

Instances were observed where the Ministry had taken action contrary to the purposes relevant to its objectives and several instances so revealed at audit test checks are given below.

(i) Since many years, the Ministry had spent for all maintenance expenses of a centre caring for the sick, that does not come under the Ministry for which provision had not been made by the Annual Budget Estimates. A sum of Rs.10.92 million had been spent thereon in the year under review itself. In terms of the Cabinet Decision No. අමප/ 14/1407/509/064 of 25 October 2014, the Secretary to the Ministry should take action to re-structure this centre and to establish it as a recognized legal entity by an Act of Parliament. However, re-structuring activities of the said entity had not been completed even by 30 September 2016.

(ii) Drugs valued at Rs.33.43 million had been supplied during the period from the year 2011 to the year 2015 to a medical centre established in the Parliamentary Complex, which had not been authorized by the Annual Appropriation Act., contrary to the methodology that should be followed in issuing drugs to a hospital or a medical centre. In terms of Financial Regulation 751, these stocks of drugs had not been entered in the Stock Books and issuing and taking on charge as well had not been done through the pharmacists. Many types of drugs of high values supplied, had not been included in the drugs estimates.

(b) **Observations on the Private Health Services Regulatory Council**

The following observations are made in this connection.

(i) The Private Medical Institutions Regulatory Council had been established in terms of the Private Medical Institutions (Registration) Act. The development and monitoring of standards to be maintained by the registered private medical institutions was the role assigned to this Council. Accordingly, the regulation of implementing a method of evaluation of standards maintained at present and to ensure the quality of patient care services rendered or provided, to ensure that the minimum qualifications for recruitment and minimum standards of training of personnel are adopted by all private medical institutions were the functions to be performed by the Council. A proper methodology had not been prepared and implemented for the performance of that role.

(ii) In fulfilling the objectives of the Council, no steps whatsoever had been taken even by the end of the year under review to formulate rules on the following procedures and practices that should be complied with.

- Regular implementation of the proposals of accreditation for private medical institutions.
- Formulate regulations in respect of the guidelines to be complied with by Provincial Directors of Health Services in the registration or renewal of registration of private medical institutions.
- The procedure or practice to be followed in entertaining any complaint against any private medical institution or person attached thereto from any interested or aggrieved person, and the final disposal thereof.

(iii) In terms of provisions in Sub-section 2(1) of the Act, the number of private medical institutions registered in the year 2007 stood at 1,747 and that number had gradually decreased to 787 by the year under review. Nevertheless, the Council had not formulated and implemented a proper methodology to identify the number of private medical institutions which should be registered, to register them and to implement the provisions in Section 4 of the Act, in respect of unregistered institutions.

(iv) The financial statements of this Council had not been presented to audit since the year 2011.

3.16 Transactions of Contentious Nature

A donation of Rs.5.95 million had been received from the Government of Japan for the distribution of 850 kilograms of Potassium Iodate used in the iodization of salt among producers of iodized salt island wide under the programme on prevention of Iodine Deficiency Disorders implemented by the Environmental and Professional Health Division of the Ministry of Health. That quantity of 850 kilograms of Potassium Iodate itself had been handed over to Lanka Salt Ltd. by 27 February 2015. The Secretary to the Ministry of Health has informed the audit by the Letter dated 20 July 2016 that the General Manager of Lanka Salt Ltd. had agreed to credit the value of that stock of Potassium Iodate to the Health Development Fund. Even though a period of over one year had lapsed after handing over the stock of Iodine to Lanka Salt Ltd. by 30 August 2016, action had not been taken to recover that money from Lanka Salt Ltd.

3.17 Irregular Transactions

Certain transactions entered into by the Ministry had been devoid of regularity. Several such instances observed are given below.

(a) **Deviating from the Government Procurement Procedure**

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Sums of Rs.2.79 million and Rs.1.16 million had been spent in the year under review by the Monaragala District Hospital for the purchase of 20 Lap Top computers and 10 Desktop computers respectively. The following observations are made in respect of those expenses.

(i) The maximum limit of purchasing goods by a regional procurement committee on shopping method is Rs.1 million according to Guideline 2.14.1 of the Government Procurement Guidelines without the prior approval of the Secretary to the Ministry in terms of Financial Regulation 41. Nevertheless, 20 Lap Top computers and 10 Desktop computers had been purchased by spending sums of Rs.2.79 million and Rs.1.16 million respectively, exceeding that limit.

(ii) In terms of Guideline 7.10.1 of the Government Procurement Guidelines, the post-qualifications of contractors had not been checked. Moreover, transaction had been carried out by preparing fake addresses, business registration certificates, letters on calling for quotations, bids, invoices and placing forged signatures. Instead of the supplier mentioned in the voucher, the cheque had been written in favour of another person. Even though it was mentioned in the price quotations that a guarantee period of 02 years for 20 Lap Top computers and 03 years for 10 Desktop computers would be given, the guarantee certificates had not been obtained.

(iii) The Lady Ridgeway Hospital for Children had purchased 02 Ambulatory Blood Pressure Monitoring Systems and 01 ENT Work Station for which the certificate of registration in the National Medicines Regulatory Authority had not been obtained in the year under review by spending sums of Rs.2.15 million and Rs.36.75 million respectively. Even though a performance bond of Rs.2.62 million should have been obtained in terms of Guideline 5.4.10 of the Government Procurement Guidelines for 05 Pediatric OT Tables purchased in the year under review, a performance bond valued at Rs.1.42 million had been obtained instead.

(b) **Transactions without Authority**
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The following observations are made during the course of audit test checks on the canteens maintained in the hospitals under the Ministries.

(i) All the canteens of all institutions under the Ministry should have selected suitable contractors by inviting bids by the Letter of the Secretary to the Ministry addressed to all Directors of Hospitals and Heads of Institutions dated 03 October 2011 in which the number is not clear. Contrary to the instructions in that Letter, contracts had been awarded to Hospital Staff Welfare Societies and Co-operative Development Welfare Societies for running of 41 canteens that belonged to 15 Hospitals without calling for bids. No written agreements whatsoever had been entered into between the Heads of the relevant Institutions and those welfare societies. Two canteens had been sub- let in the year under review by staff welfare societies of two hospitals. As such, the Government had been deprived of revenue of Rs.11.52 million. Moreover, no rental whatsoever had been recovered to the Government from 27 canteens given to welfare societies. Details of income received to welfare societies of the Colombo National Hospital, from renting out canteens had not been presented to audit as well.

(ii) Even though 7 canteens of 6 more hospitals had been rented out to the private sector by calling for bids, in terms of the agreements entered into with the contractor, rentals, taxes, water and electricity charges and fines totalling Rs.48.22 million receivable to the Government as at 31 December 2015 had not been recovered.

(iii) A sum of Rs.18.00 million was recoverable as the rent of the canteen of the Medical Officers of the Anuradhapura Teaching Hospital which had been allowed to run without formal permission since 2012 by the Hospital Board. Even though the Special Technical Evaluation Committee of the Ministry had given directions to recover that outstanding rent, action had not been taken to recover that amount even by 08 December 2016.

(c) **Making Outstanding Payments of the Cleaning Division**

The Government had decided to increase the salaries of the Cleaning Services in the year 2010. A sum of Rs.3.89 million had been paid as outstanding cleaning charges in the years 2014 and 2015 to a private institution which had carried out cleaning activities of the Monaragala District General Hospital during the period between January 2011 and March 2012. However, the approval of the Ministry Procurement Committee had not been obtained for that payment. As stated in the Gazette Extraordinary No.1668/19 of 27 August 2010, it had not been confirmed whether salary increments had been paid before making outstanding payments and contributions for Employees' Provident Fund relevant to those increased salaries had been paid. Moreover, no contributions for the Employees' Provident Fund whatsoever had been paid since 2011, the year in which this private institution was registered.

3.18 Losses and Damage

Observations on losses and damage revealed during audit test checks are given below.

(a) The building located at No.464, T.B. Jayah Mawatha, Colombo 10 had been rented on 08 June 2015 on the basis of paying Rs.9,000,000 per month with the main objective of joining the Ministry of Health with the Ministry of Indigenous Medicine and shifting that staff to one place. A feasibility study had not been carried out in respect of the building before signing the lease agreement. It was revealed that the Alarm System was inoperative and the lifts were not functioning from time to time. Moreover, according to the air sample test carried out by the National Buildings Research Organization, it was revealed afterwards that it was a building with carbon dioxide exceeding the standard and gas causing cancer (Formaldehyde). According to the lease agreement, the date of entering into the agreement was 08 June 2015. However, rent had been paid from 01 May 2015 and as such, an overpayment of Rs.11,539,726 had been made for 01 month and 08 days.

(b) In terms of Financial Regulation 109, losses and damages of Rs.111.49 million occurred in the year under review in hospitals and 06 institutions had not been reported in the account.

(c) The lifesaving drug costing Rs.2.50 million purchased without a proper study on the requirement and quantity for the Lady Ridgeway Hospital for Children, had expired without being made use of. Even though the approval of the Treasury had been sought to write off the loss from books without taking action in terms of Financial Regulation 103(1), that request had been rejected by the Treasury.

(d) Even though the approval of the Treasury had been sought to write off Rs.29.57 million identified as shortages in stores and purchasing errors from books, without taking action to recover the loss from the relevant officers in terms of Financial Regulations 101 and 109, that request had been rejected by the Treasury.

(e) Even though only the Honourable Minister of Health, Nutrition and Indigenous Medicine had been invited to participate in the Malaria Elimination in Asia Pacific and Southern Africa: Political Leadership and Sustained Financing Summit held in the United Kingdom from 30 September to 02 October 2015, informing that facilities would be provided within the duration of the summit including an economy class air ticket, two business class air tickets had been reserved in the year under review by spending Rs.842,200 at the rate of Rs.421,000 per ticket. Out of the amount paid, only a sum of Rs.809,490 had been recovered on 29 January 2016 as those two air tickets were cancelled subsequently. As such, a financial loss of Rs.32,710 had occurred.

(f) Two officers who were due to participate in the 68th Session of the Regional Summit of the World Health Organization held in East Timor from 7 to 11 September 2015 had not participated in the tour. However, action had not been taken even by 08 December 2016 to recover a sum of Rs.518,200 paid for the two air tickets.

3.19 Unresolved Audit Paragraphs

Reference to the audit paragraph which had not been rectified by the Ministry in respect of deficiencies included in the audit paragraphs of the Reports of the Auditor General relating to the Ministry is given below.

Reference to the Report of the Auditor General		**Subject under Reference**
Year	**Paragraph Number**	
2007	6.6 (e) xiii	Even though the parties responsible for the misappropriation of Rs.10 million occurred in transit of drugs had been identified, action had not been taken to recover the loss even by 30 September 2016.

3.20 Damage caused to the Ecosystem

As maintenance and repairs had not been carried out on time, the sewerage systems in 03 hospitals had not functioned. Moreover, no specific methodology had been followed in the use of chemicals in cleaning waste water in 12 hospitals. A specifically recognized post was unavailable to supervise the activities of the sewerage systems of 10 hospitals and a specific methodology had not been followed in carrying out the quality test on the cleaned water in 12 hospitals. The Environmental Protection Permit for emission of waste issued in terms of Section 23 of the National Environment Act, No.47 of 1980, had not been obtained by 10 hospitals. Accordingly, the sewerage systems of many hospitals had not been maintained properly and as such, the environment had been damaged due to release of waste from them to the ecosystem.

3.21 Import of Fake and Sub Standard Cosmetic Products

The National Medicines Regulatory Authority Act, No.5 of 2015 had been enacted with effect from 01 July 2015 by abolishing the Cosmetics Devices and Drugs Act, No.27 of 1980. The provisions cited in the abolished Act relating to the manufacture and import of plain cosmetics had not been included in the new Act. Cosmetic products valued at Rs.2,922.94 million that could not be quantified had been imported in 3,296 instances during a period of 06 months alone, commencing from 01 July 2015. Nevertheless, a proper monitoring could not be carried out due to the unavailability of legal provisions as mentioned above. Accordingly, the Management had not paid proper attention in respect of import of fake and sub- standard cosmetic products and the possibility of serious health intimidation in their long-term use.

3.22 Failure in returning to Duty by Medical Officers who had been abroad

Fifty six Medical Officers who had obtained leave with pay for specialized medical training abroad had not returned to duty after completing that training. Sixty four Medical Officers had proceeded abroad, obtaining no-pay academic/non-academic leave during the period from the year 2008 to 2015. The Ministry should have recovered a sum of Rs.118.44 million from those Medical Officers due to failure in returning to duty by breaching the agreements entered into with the Government. Out of that amount, 44 per cent or Rs.52.32 million had not been recovered as at 31 December 2015, and a sum of Rs.3.05 million had been under recovered. A sum of Rs.4.25 million had been overpaid as salaries to 10 Medical Officers due to failure in issuing the notice of vacation of posts to the Medical Officers who did not return to duty after specialized medical training and failure in taking prompt measures to stop payment of salaries. Information of 14 Medical Officers had not been maintained in an updated manner by the Ministry and as such, there was a risk in the recovery of the bond values amounting to Rs.5.04 million recoverable from them. The Ministry had not taken steps to find relevant information of those officers from the Department of Immigration and Emigration or through Embassies..

3.23 Observations on Medical Supplies such as Drugs, Surgical Equipment and Laboratory Material

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The following observations are made.

(a) The Cabinet of Ministers had decided that medical supplies not recommended by the Drugs Formulary Revision Committee should not be purchased. However, 4,555 items of medical supplies which had not been recommended by that Committee, had been purchased.

(b) Out of 16,446 items of medical supplies including drugs consumed by Government Hospitals, 12,227 frequently consumable items had been identified as estimated items. Estimating their annual requirement and placing orders with the State Pharmaceuticals Corporation for making purchases from worldwide suppliers and identifying 4,219 items as non-estimated items and purchasing locally as and when required without estimating the annual requirement had been the policy of the Ministry. Expensive items that could be estimated were included in the non-estimated items and due to failure in estimating, those items had been purchased locally at a high price outside competition. During a sample test of 10 such non-estimated items, it was observed that 7 items had been purchased in 243 instances from the year 2014 to June 2016 by spending a sum of Rs.168.35 million.

(c) Placing orders for purchasing estimated items with a supply period of 11 months had been the policy. However, medical supplies relevant to 55 per cent of the number of orders placed with the State Pharmaceuticals Corporation relating to the year under review had not been received within the due period.

(d) Out of a total number of 69 files sent in the year under review by the State Pharmaceuticals Corporation for submitting to the Ministry Procurement Committee and the Cabinet Appointed Procurement Committee, during a sample test of 45 files, it was observed that a period ranging from 07 months to 02 years had lapsed in carrying out procurement activities relating to 28 files. Failure in acting according to the Procurement Time Schedule had resulted in this delay.

(e) The following adequate and appropriate measures had not been taken in minimizing the delays in procurement activities.

(i) Implementation of a methodology in placing orders based on re-order stock levels for minimizing lead time in supplying medical supplies,

(ii) Efficient implementation of activities relating to the files sent by the State Pharmaceuticals Corporation for submitting to the Ministry Procurement Committee and the Cabinet Appointed Procurement Committee according to a procurement plan,

(iii) Increasing the number of supervising officers and proper assignment of responsibilities,

(iv) Controlling of supplies by the State Pharmaceuticals Corporation contrary to the Delivery Schedule without the approval of the Medical Supplies Division and recovery of a surcharge of the service fee of 10 per cent paid to them for delays occurred.

(f) As a result of this delay, medical supplies with a high cost had to be purchased from the local market every year and the total cost of medical supplies purchased from the local market during the year under review alone amounted to Rs.4,310.27 million.

(g) As medical supplies had to be purchased from the local market, the additional cost incurred during the period from the year 2007 to the year 2015 amounted to Rs.4,875.71 million. The local market price of certain types of drugs had unusually increased over that of the State Pharmaceuticals Corporation. In terms of the agreements entered into with the State Pharmaceuticals Corporation, the additional cost that had to be incurred in purchasing drugs from the local market by the Medical Supplies Division should have been recovered from the State Pharmaceuticals Corporation. If purchasing had to be made from the local market due to delay of the supplier, the relevant information should be presented by the Management for recovery of the relevant additional cost incurred, before the performance bond of the supplier becomes invalid or before paying the Letter of Credit retention amount. However, it had not been so done.

(h) The medical supplies purchased, had not been quality tested immediately after purchasing. Quality tests had been referred to only when an uncertainty in the quality arose. Drugs valued at Rs.233.87 million had failed the quality test in the year under review.

(i) Even by the time it was directed to remove the drugs failed at the quality test from use in the year 2015, drugs costing Rs.163.96 million had been issued to patients and a survey on the damage caused to the patients had not been carried out. Certain drugs had expired due to taking a long time for quality tests.

(j) The Cabinet of Ministers had decided to recover the cost of quality failed drugs and 25 per cent on cost as administrative expenses from the suppliers. However, out of the total cost of quality failed drugs amounting to Rs.2,772.4 million from the year 2011 to 31 December 2015, only a sum of Rs.301.4 million had been recovered by the Medical Supplies Division from the State Pharmaceuticals Corporation while only a sum of Rs.188 million had been recovered by the State Pharmaceuticals Corporation from the suppliers. The suppliers had complained that the drugs stores as well as the vehicles used in transporting drugs were not up to standard and due to that reason the drugs fail in quality after reaching the island. As such, the balance values could not be recovered from the relevant suppliers.

(k) In order to protect the quality of drugs, they should be stored and maintained with sufficient ventilation, light and temperature. However, it was observed at the physical verification on 07 April 2016in audit that drugs costing Rs.84.41 million that should have been stored at a temperature between 25- 30 Celsius Degrees in 03 stores established in the premises of the Medical Supplies Division, had been stored in rooms with a temperature of 32-35 Celsius Degrees.

(l) As there was inadequate space in most of the drug stores, medical supplies of high value had been kept in the corridors in front of stores without taking over from the supplier of transport services. After the stores facilities were available, they had been taken over to stores and issued Goods Received Notes. It was established at the physical verification carried out on 07 April 2016 in audit that stocks costing Rs.61.09 million taken over as well as not taken over by the Storekeeper had been kept in the corridors in front of stores.

(m) The Cabinet of Ministers had approved the Five Year Development Plan with a total estimated cost of Rs.410 million on 15 October 2009 , prepared for the development of infrastructure facilities and human resources in the National Drugs Quality Control Laboratory. Its financial progress by 31 December 2015 had been only Rs.132 million. According to the number of laboratory tests done during the four preceding years, no improvement had been made in the laboratory facilities by the Five Year Plan.

(n) According to the Manual on Management of Drugs, a buffer stock of 03 months should be maintained by the Medical Supplies Division for an efficient stock control. Nevertheless, there were 645 types of medical supplies that had not fulfilled the requirements of buffer stocks of 03 months as at 31 March 2016.

(o) According to the Manual on Management of Drugs, the drug stores should have been timely checked by a Staff Grade Officer. In addition to that, the accuracy of storing and accounting the drugs should have been ensured by audit test checks. However, except the annual stock verification carried out by the Stock Verification Unit of the Ministry, no other checking whatsoever had been carried out.

(p) Adequate attention had not been paid on the protection of stocks to the average value of approximately Rs.10,094.60 million stored in 27 store complexes belonging to the Medical Supplies Division. Except the Kotikawatte stores, action had not been taken by 07 April 2016 to obtain insurance coverage against fire and theft in respect of other stores and to repair or modernize the fire alarms that had become inoperative in the stores established in the Medical Supplies Division.

(q) A formal inquiry had not been carried out in terms of Financial Regulations 101,104 and 109 relating to stocks shortages of Rs.42.67 million that existed in the stores of the Medical Supplies Division during the period from the year 1988 to the year 2005. As such, those shortages could not be recovered from the responsible parties.

(r) Stenciling of the State Emblem on the containers of medical supplies of the State Pharmaceuticals Corporation was an order condition as well as an internal control strategy introduced. Nevertheless, it was observed during an audit test check that 06 Items of medical supplies costing Rs.60.74 million on which the State Emblem had not been stenciled, remained in the stores.

(s) Three hundred and eighty seven types of expired medical supplies valued at Rs.170.66 million relating to the period between the year 1990 and the year 2010 had been disposed of in the year 2012. However, relevant authority had not been obtained for the write off of those medical supplies from books. The Medical Supplies Division had failed to furnish details and data on expired drugs to audit after the year 2011. Moreover, according to an audit test check carried out in 57 hospitals under the Ministry, it was established that expired drugs costing Rs.50.28 million relating to 16 hospitals had remained by the end of the year under review.

(t) It had been the objective to import only dependable and high quality medical supplies to suit the requirements of health security for a fair price by the National Medicines Regulatory Authority Act, No.5 of 2015. Accordingly, after testing the quality of medical supplies submitted by the suppliers, the National Medicines Regulatory Authority which was known before 01 July 2015 as Cosmetics Devices and Drugs Authority, had been established for registration of those suppliers and their medical supplies. Nevertheless, medical supplies had been purchased from suppliers who had not so registered in the local market. The National Medicines Regulatory Authority had issued 108 no-objection letters on behalf of the Medical Supplies Division for such purchases costing Rs.242.67 million in the year 2015 itself. In addition to that, 457 and 769 such no-objection letters had been issued on behalf of the Sri Lanka State Pharmaceuticals Corporation and other institutions respectively as well. As such, it was established that medical supplies without assurance of quality had entered the country.

(u) The same drug or chemicals had been locally purchased repeatedly in adjoining months for avoiding shortage of drugs and chemicals due to the delay in stock ordering process relevant to the orders placed in the State Pharmaceuticals Corporation. It was revealed at an audit test check that drugs costing Rs.719.90 million and 08 Items of chemicals had been purchased in the years 2014 and 2015 from the local market in adjoining months in several instances from 03 to 06 instances and that an additional expenditure of Rs.53.62 million had been incurred for 04 Items of them. Even though there was a methodology of recovering the additional cost incurred from the suppliers due to the delay in receiving stocks, a methodology had not been identified in recovering the additional cost arising due to the delay in the stock ordering process from the responsible officers.

(v) Drugs costing Rs.157.19 million including non -estimated drugs costing Rs.6.92 million had been purchased from the local market by Procurement Committees of 33 hospitals in the year under review in instances of shortage in the Medical Supplies Division. A methodology to compute and recover the additional cost relating to those purchases had not been identified. Moreover, the same drug had been purchased on adjoining dates for each hospital at different prices and an additional expenditure had been incurred in certain instances due to failure in purchasing from Rajya Osusala.

(w) A Medical Supplies Management Information System (MSMIS) necessary for organizing the Medical Supplies Management Process more effectively and to supply essential drugs continuously to Government hospitals, had been established in the year 2008. A sum of Rs.182.18 million had been spent thereon by 31 December 2015. Nevertheless, it was established that the values of settled Debit Notes to the State Pharmaceuticals Corporation could not be obtained from this data system.

(x) The entire process of planning the annual requirement relevant to each medical supply, placing orders and distribution had been assigned to one Stock Control Officer by the aforesaid computer system without proper segregation of duties.

(y) The Cabinet of Ministers had decided not to extend the contract awarded to the supplier who had been selected to supply sterilized rubber surgical gloves produced locally required for the year 2015, to purchase the entire requirement of surgical gloves for the year 2015 by calling for open competitive bids and if a shortage of surgical gloves arises, to purchase 25 per cent of the requirement for the year 2015 from the present supplier to avoid the shortage. Accordingly, 25 per cent of the proposed quantity of purchase for the year 2015 had been purchased from the present supplier. In terms of the Decision of the Cabinet of Ministers, procurement activities had not been commenced by the end of the year under review for purchasing the quantity of the balance 75 per cent. As such, the entire stocks including buffer stocks of gloves of 03 sizes had exhausted as at 31 December 2015 and by January 2016, a severe shortage of surgical gloves in 08 major hospitals had arisen. As such, a stock of surgical gloves had been regionally purchased as urgent purchasing by spending a sum of Rs.334 million during the first 06 months of the year 2016 for the requirement of gloves for 3 months. That purchasing had been made from the suppliers themselves, whose contract the Cabinet of Ministers had informed not to extend. Hospitals with exhausted stocks of these gloves had regionally purchased gloves and gloves which had been purchased by the Medical Supplies Division for Rs.35.26 per pair had been purchased by the Castle Street Hospital for Women for Rs.57.25 per pair.

3.24 Observations on the Purchase of Medical Equipment

The following observations are made.

(a) Even though economic benefits can be obtained by estimating the entire requirement of medical supplies for all Government hospitals and institutions by outright procuring, purchasing of medical supplies through regional procurement committees by making provisions for each hospital had been allowed. Out of the entire provision of Rs.11,440 million made for the Bio-Medical Engineering Services Division during the period of 05 years from the year 2011 to the year 2015, provisions of Rs.5,224 million had been distributed among hospitals.

(b) In selecting a supplier for the supply, installation and maintenance of 64 ICU Ventilators (Adult and Pediatric) for the Intensive Care Units, the first minimum bid had been rejected without confirming that one or several matters mentioned in the Technical

Specifications as Critical Requirements by the bidder who had submitted the first minimum quotation had not been fulfilled or that instructions to bidders in Tender Documents had been breached. The Technical Evaluation Committee had made recommendation based on a report which was illegal and baseless. Moreover, three members out of the 7 members of the Technical Evaluation Committee, had not agreed to that recommendation. It was observed that action had been taken with the intention of awarding the procurement to the bidder who submitted the second minimum quotation, which exceeded the first minimum bid by Rs.23.4 million.

(c) Instead of appointing 05 members, only 03 members had been appointed to the Technical Evaluation Committee for the Ministry Procurement Committee, violating Procurement Guideline 2.8.3 in the procurement of supplying 18 ICU (Neonatal) ventilators. Moreover, proceedings of the bid opening had been recorded by violating Procurement Guidelines 6.3.6 and 6.3.7 and all members of the Bid Opening Committee had not signed the proceedings and handed over to the Chairman of the Technical Evaluation Committee. Out of 64 Critical Specifications, evaluations had been carried out on the technical and clinical factors, in a manner disadvantageous to the bidder who had submitted the minimum bid of Rs.42,951,240 of which only one specification had not been fulfilled and advantageous and partial to the bidder who had submitted the second lowest bid of Rs.44,010,000 in which two critical specifications had not been fulfilled. Moreover, the Chairman of the Technical Evaluation Committee had unilaterally recommended to award the procurement to the second minimum bidder. Even though the Ministry Procurement Committee had decided on 18 May 2016 to award the procurement to the bidder who had submitted the second lowest quotation subject to a discount of 10 per cent or Rs.1,107,000 of the services and maintenance value, in accordance with the recommendation of the Chairman of the Technical Evaluation Committee. However, the manner in which the Procurement Committee had obtained authority in awarding the procurement while getting discounts had not been furnished to Audit. As a result of the decision taken in awarding the procurement to the bidder who had submitted the second lowest bid, the loss sustained by the Government amounted to Rs.1,058,760. In addition, the loss likely to sustain due to services and maintenance cost amounted to Rs.5,643,000.

3.25 Transactions in the nature of Financial Irregularities

The following observations are made.

(a) According to the information obtained from the Department of Immigration and Emigration, it was confirmed that the officer holding the post of Additional Secretary (Development) to the Ministry of Health, who had been nominated to participate in the 68^{th} Session of the Regional Summit of the World Health Organization held in the State of Dili Timor Leste (East Timor), had not left the country for the participation in that summit. However, that officer had not taken action to repay the allowances of Rs.392,995 paid to him for the foreign tour and the Ministry had not taken action to recover that amount as well.

(b) Despite combined allowances had been paid by the World Health Organization to the Deputy Director General (Planning) who had participated in a meeting of the World

Health Organization held in New Delhi in India by the South East Asian Regional Office of the World Bank from 29 June to 2 July 2015 and in another meeting held on 3 July 2015, the Ministry had paid combined allowances of Rs.329,664 as well.

(c) It was mentioned in the invitation that food, accommodation and expenses for academic purposes for the training programme coordinated by the Sri Lanka Institute of Development Administration held in Beijing from 21 December to 28 December 2015 would be incurred by a Chinese University. Nevertheless, a sum of Rs.162,998 had been paid to the Additional Secretary (Development) to the Ministry who had participated in that training programme.

3.26 Human Resources Management

(a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2015 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i)	Senior Level	13,950	12,091	1,946	87
(ii)	Tertiary Level	31,067	26,636	4,445	14
(iii)	Secondary Level	5,106	3,817	1,292	3
(iv)	Primary Level	28,766	25,321	9,059	5,614
(v)	Other (Casual/ Temporary/ Contract basis)	-	1,296	-	1,296
	Total	**78,889**	**69,161**	**16,742**	**7,014**

The following observations are made.

(i) Salaries had been paid by recruiting 7,014 employees exceeding the approved cadre. Eighty six Specialists and 5,567 Saukya Karya Sahayaka (Health Service Assistants) were included in that excess.

(ii) Fifty six employees on permanent basis and 1,296 employees on temporary and contract basis had been recruited for posts not in the approved cadre.

(iii) The excess of Specialists in 24 hospitals and 02 institutions in the suburbs under the Ministry stood at 172 and that excess had ranged from 01 to 25. Moreover, the shortage of specialists that existed in 09 hospitals and 09 institutions stood at 86.

(iv) The number of vacancies of Medical Officers in 75 hospitals and institutions stood at 1,772 while the excess number in 16 hospitals and institutions under the Ministry stood at 178. The number of vacancies of Medical Officers in hospitals located in remote Districts such as Anuradhapura, Polonnaruwa and Jaffna had ranged from 26 to 113. However, the number of excess Medical Officers in hospitals located in the Districts of Colombo, Kandy and Kurunegala had ranged from 9 to 52.

(v) Ten Accountants, 13 Bio-Medical Engineers, 14 Dental Surgeons and 13 Drugs Analysts were included in the vacancies of Senior Level.

(vi) Even though the number of Medical Officers approved for various administrative purposes of the Ministry had been 30, fifty seven excess Medical Officers had been attached to various Divisions of the Ministry without adequate assignment of duties. Out of them, 09 Medical Officers had obtained salaries from various hospitals but they had not served in those hospitals.

(vii) Eleven regional hospitals and 30 Primary Care Units belonging to 15 Districts had been closed down by 07 September 2016 due to vacancies of Medical Officers.

(viii) The female officer in Grade III of the Legal Officers Service holding the post of Chief Legal Officer had been absorbed to the Grade II post of Legal Officer in the Executive Service with effect from 03 January 2013 by the Secretary to the Ministry without the approval of the Public Service Commission. Instead of the monthly salary of Rs.33,255, a monthly salary of Rs.38,075 had been paid by that date.

(ix) The Deputy Director (Information Technology) who was the only authorized and trained officer of all operations of the computer system commenced since the year 2008 for management and administration of medical supplies had retired in the year under review. However, the retired officer had been re-employed to that post on contract basis without taking action to recruit a permanent officer with qualifications to that post.

(x) Failure in fulfilling vacancies in 07posts of Assistant Director approved for the Medical Supplies Division and 56 vacancies in the posts of Medical Supplies Assistant, Fork Lift Operators, Packagers and Stores Assistants had affected the inefficiency of the management, administration and storing of medical supplies.

(b) **Hierarchy of Posts in the Organization Chart**

The hierarchy of posts had not been properly included in the Organization Chart prepared. Even though 90 various Divisions have been located in the Ministry premises, attachment and segregation of duties among the officers of those Divisions had been improper. The inter coordination between Divisions had been at a very weak level. This position had resulted in long delays in procurement activities, non-maintenance of data in each Division, irregularity in the appointments, attachments and transfers in the Health Staff.